TRANSCRIPT OF RECORD

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1923

No. 540

THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, APPELLANT,

vs.

E. V. KUYKENDALL, AS DIRECTOR OF PUBLIC WORKS OF WASHINGTON, ET AL., ETC., ET AL.

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON

FILED SEPTEMBER 10, 1923

(29,850)

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[fol. 1] NAMES AND ADDRESSES OF SOLICITORS

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Dunbar, John H., Attorney General of the State of Washington, Olympia, Washington; Clifford, Raymond W., Assistant Attorney General of the State of Washington, Olympia, Washington, Solicitors for Appellees.

[fol. 1½] IN THE

DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

In Equity. No. 166E

THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a Corporation, Plaintiff,

vs.

E. V. KUYKENDALL, as Director of Public Works of Washington; Hance H. Cleland, as Supervisor of Public Utilities of Washington, and Frank R. Spinning, as Supervisor of Transportation of Washington, the Persons Constituting the Department of Public Works of the State of Washington, and John H. Dunbar, Attorney-General of the State of Washington, Defendants.

BILL OF COMPLAINT—Filed Apr. 24, 1923

To the Judges of the District Court of the United States for the Western District of Washington, Southern Division:

The Pacific Telephone and Telegraph Company, a corporation organized and existing under the laws of the State of California, brings this, its bill of complaint, against the defendants, and thereupon complains and charges as follows:

[fol. 2] I. That it is a corporation duly organized and existing under and by virtue of the laws of the State of California, having its

principal place of business at San Francisco, in said state, and is a citizen of said state. That during all of the times referred to in this bill of complaint it has owned and operated and now owns and operates a telephone and telegraph system and has been and is now engaged in operating and conducting a public telephone and telegraph system in the State of Washington and elsewhere. That it has complied with all the laws of the State of Washington relating to foreign corporations, has paid its annual license fee last past due, and is duly authorized to do business therein.

II. That the defendant E. V. Kuykendall is the duly appointed, qualified and acting Director of Public Works of Washington, and is a citizen and resident of the Eastern District of Washington; that the defendant Hance H. Cleland is the duly appointed, qualified and acting Supervisor of Public Utilities of said state, and is a citizen and resident of the Eastern District of Washington; that the defendant [fol. 3] Frank R. Spinning is the duly appointed, qualified and acting Supervisor of Transportation in said state and is a citizen and resident of the Western District of Washington. That said E. V. Kuykendall, Hance H. Cleland and Frank R. Spinning are the members of and constitute the Department of Public Works of the State of Washington. Said defendants will be hereinafter referred to as the Department. That the defendant John H. Dunbar is the duly appointed, qualified and acting Attorney-General of the State of Washington, and is a citizen and resident of the Western District of Washington.

III. This suit is of a civil nature in equity, is a controversy between citizens of different states and arises under the constitution and laws of the United States in that plaintiff seeks to enjoin the enforcement of an order made by the said Department of Public Works on March 31, 1923, which said order prescribes the maximum rates and charges to be charged by plaintiff for telephone service in the State of Washington, for the reason that said rates and charges are confiscatory of plaintiff's property used or useful in furnishing said service to the [fol. 4] public, and, in consequence, said order seeks to deprive plaintiff of its property without due process of law, and denies to plaintiff the equal protection of the law in violation of its rights under the Fourteenth Amendment of the Constitution of the United States, and is therefore null and void.

The amount in controversy in this suit exceeds the sum or value of $3,000, exclusive of interest and costs.

IV. That on August 8, 1919, the Public Service Commission of Washington, an administrative body duly created by the statutes of said state, and the predecessor of, exercising like powers as the said Department of Public Works, made an order prescribing the maximum rates and charges to be charged by plaintiff on and after August 1, 1919, for telephone service, both exchange and toll, within the State of Washington. A copy of said rates applicable to Seattle and Tacoma, applicable to farmer line rates effective through-

out the State, and toll rates effective therein, is filed herewith, marked Exhibit "A" and hereby specially referred to and made a part hereof.

[fol. 5] V. That on September 20, 1922, plaintiff filed with the said Department a schedule of rates to be charged by plaintiff for exchange telephone service in said state. That said schedule increased the rates to be charged for exchange telephone service in substantially all the exchanges owned and operated by plaintiff in the State of Washington.

VI. That on September 24, 1922, the said Department issued an order suspending for the full statutory period the operation of said rates so filed by plaintiff on September 20, 1922, and directing the plaintiff to file for the consideration of said Department a toll rate schedule conforming in principle with the toll rates filed by the plaintiff and effective prior to the war period.

VII. That on October 5, 1922, the plaintiff filed, as directed aforesaid, a toll rate schedule, a copy of which is filed herewith, marked Exhibit "B" and hereby specially referred to and made a part hereof, and concurrently therewith filed with said Department [fol. 6] a withdrawal and cancellation of the rates filed by it on September 20, 1922, except the rates and charges applicable to the cities of Seattle and Tacoma. That schedule of rates so filed by it on September 20, 1922, for Seattle and Tacoma and not withdrawn and cancelled are filed herewith, marked Exhibit "C" and hereby specially referred to and made a part hereof.

VIII. That subsequent to the dates hereinbefore mentioned and between December 18, 1922, and March 1, 1923, said Department held numerous hearings in the State of Washington for the purpose of determining the value of plaintiff's property used or useful in rendering telephone service in the State of Washington; the reasonableness or unreasonableness of the rates and charges then being charged by plaintiff in said state; the reasonableness or unreasonableness of the schedule of rates and charges applicable to the toll service filed as aforesaid by plaintiff on October 5, 1922; and the reasonableness or unreasonableness of the schedule of exchange rates applicable to Seattle and Tacoma filed as aforesaid on September 20, 1922. That on the 31st day of March, 1923, two of the three members of said Department filed an order, a copy of which is filed herewith, marked Exhibit "D" and hereby specially referred to and made a part hereof, whereby the application of plaintiff to increase its rates for service was in all respects denied. That on the same date, to-wit, March 31, 1923, the Supervisor of Public Utilities and a member of said Department who was present at all of said hearings, filed a dissenting opinion, a copy of which is filed herewith, marked Exhibit "E" and hereby specially referred to and made a part hereof, by the terms of which he found that the rates, both toll and exchange, then and theretofore being charged by plaintiff, were unreasonable and less than sufficient, and in which he fixed certain rates, both toll and exchange, as reasonable and not more

than sufficient. That said rates so found as reasonable by said Supervisor of Public Utilities, as set forth in said dissenting opinion (Exhibit "E"), are the rates set forth by plaintiff in the schedule filed herewith, marked Exhibit "F" and hereby specially referred to and made a part hereof, which the plaintiff proposes to establish and make effective pending the final decree in this cause. That the toll rates set forth in Exhibit "F" are the same as the toll rates set forth in Exhibit "B."

[fol. 8] IX. That the Home Telephone and Telegraph Company of Spokane is a corporation organized and existing under and by virtue of the laws of the State of Washington, and is the owner of and operates the telephone system furnishing telephone service to the City of Spokane and the territory immediately adjacent thereto. That all of the capital stock of said Home Company of Spokane is owned by plaintiff and because of such stock ownership said Department, in considering plaintiff's application for increased rates, treated the Spokane Exchange as an exchange of plaintiff, and in arriving at the rate base for the State of Washington, included therein the property used and useful in furnishing telephone service to said City of Spokane and the territory immediately adjacent thereto. That the validity of the said order of said Department of March 31, 1923, as affecting the rates for telephone service in the said City of Spokane and territory immediately adjacent thereto, is the subject of a separate suit brought or about to be brought in this court by said The Home Telephone and Telegraph Company of Spokane.

[fol. 9] X. The cost to plaintiff of its property in the State of Washington (not including Spokane, that being the property of said Home Company of Spokane as aforesaid, and land being included at present value), now being used or useful in furnishing its telephone and telegraph service to the public therein and exclusively devoted to the rendition of that service, was, as of the 31st day of December, 1922 the sum of $29,347,254. The cost to plaintiff of its property constituting its Seattle Exchange and now being used or useful in furnishing telephone service therein, was, as of the 31st day of December, 1922, the sum of $17,023,372, and the cost to plaintiff of its property constituting its Tacoma Exchange and used or useful in furnishing telephone service therein was, as of the 31st day of December, 1922, the sum of $2,888,021, the two cities named thus constituting sixty-eight per cent of plaintiff's property in the State of Washington. That the cost to plaintiff of its said property in the State of Washington, in the City of Seattle and in the City of Tacoma is now somewhat in excess of the amounts hereinbefore mentioned on account of the additions and betterments in the mean-[fol. 10] time made to said respective properties. That the cost to plaintiff of its property in the State of Washington and in the cities of Seattle and Tacoma is substantially the rate base fixed by the Department of Public Works in its said order of March 31, 1923, as of the 30th day of June, 1922, with additions and betterments thereto made since that time (excluding the Spokane Exchange from the rate base of the Department). The present cost of repro-

duction of said property as it existed on the 31st day of December, 1922, is the sum of $48,087,785 for the State of Washington (not including Spokane); the sum of $27,149,130 for the City of Seattle, and the sum of $4,998,964 for the City of Tacoma. That the cost of reproduction of said property less depreciation, as of the 31st day of December, 1922, is the sum of $43,962,085 for the State of Washington; the sum of $24,919,930 for the City of Seattle, and the sum of $4,534,264 for the City of Tacoma. The fair and reasonable value of said property for said state (not including Spokane) is the sum of $35,616,896; for said City of Seattle the sum of $20,852,067, and for said City of Tacoma the sum of $3,457,290, all as of the 31st day of December, 1922, the two cities named thus constituting sixty-eight per cent of the total fair value of plaintiff's property in the State of Washington.

[fol. 11] The foregoing statements as to the cost to plaintiff of said respective properties include nothing on account of the item of franchises, or the item known as going concern value, but said latter item has been considered in determining the present cost of reproduction and the present fair and reasonable value of said property.

XI. The fair annual return which plaintiff is entitled to earn under rates imposed upon it by public authority is an amount equal to not less than eight per cent of the fair and reasonable value of its property used or useful in the rendition of the service covered by the rates in question.

XII. That the plaintiff's telephone business in the State of Washington has been conducted efficiently and economically during all of the times herein referred to. Plaintiff's net earnings derived from its telephone and telegraph business within the State of Washington stated in rate per cent annual return upon the cost of the property on the one hand and upon the fair value thereof, on the other, used or useful in furnishing said service and exclusively devoted to the rendition thereof during each of the periods [fol. 12] stated, have been as follows:

	Cost	Fair value
Year 1919, State of Washington	4.97%	3.67%
Year 1919, City of Seattle	3.97%	2.66%
Year 1919, City of Tacoma	.98%	.81%
Year 1920, State of Washington	4.42%	3.33%
Year 1920, City of Seattle	1.85%	1.29%
Year 1920, City of Tacoma	.89%	.74%
Year 1921, State of Washington	3.30%	2.58%
Year 1921, City of Seattle	.69%	.52%
Year 1921, City of Tacoma	.58%	.48%
Year 1922, State of Washington	3.17%	2.58%
Year 1922, City of Seattle	.19%	.15%
Year 1922, City of Tacoma	.89%	.75%

(Spokane not included.)

At all of the times aforesaid the fair and reasonable value of said property has been an amount substantially in excess of its cost.

XIII. That the rates of plaintiff in the State of Washington established and in force, as herein set forth, during the years 1919, 1920, 1921 and 1922, and which are in effect under the order of said [fol. 13] Department of March 31, 1923, were and are not compensatory and were and are less than just and reasonable rates. That the amounts by which the net revenue derived by the plaintiff from its telephone and telegraph business in the State of Washington and in the cities of Seattle and Tacoma, were less than eight per cent of the cost of the property used or useful in each case in and exclusively devoted to the rendition of service within said state and for the said cities were for the

Year 1919, State of Washington	$537,242
Year 1919, City of Seattle	312,793
Year 1919, City of Tacoma	187,587
Year 1920, State of Washington	686,716
Year 1920, City of Seattle	535,352
Year 1920, City of Tacoma	193,050
Year 1921, State of Washington	1,058,984
Year 1921, City of Seattle	833,945
Year 1921, City of Tacoma	205,110
Year 1922, State of Washington	1,310,651
Year 1922, City of Seattle	1,192,580
Year 1922, City of Tacoma	202,121

(Spokane not included.)

XIV. That the maintenance of the rates and charges as aforesaid [fol. 14] in Exhibit "A" under the order of said Department of March 31, 1923, compels the plaintiff to provide service at rates which are not compensatory and which are less than just and reasonable, and results in the confiscation of the property of plaintiff in the State of Washington and the cities of Seattle and Tacoma devoted to public use, and deprives plaintiff of its property without compensation and without due process of law and denies to it the equal protection of the laws, in violation of the Constitution of the United States, particularly Article Fifth and the Fourteenth Amendment thereof. That said order of March 31, 1923, is therefore null and void. That if said order of March 31, 1923, is enforced and plaintiff is compelled to charge the rates therein prescribed, and if plaintiff shall practice all reasonable economies consistent with adequate and efficient service to the public, the financial results will be as follows: Plaintiff will be prevented from earning any return in excess of 2.11 per cent per annum upon the fair and reasonable value of said property in said state, and .54 per cent loss per annum upon the fair and reasonable value of said property in said City of Seattle, and .56 per cent per annum upon the fair and reasonable value of

said property in said City of Tacoma. That had the rates set forth [fol. 15] in Exhibit "F," being the rates found by the Supervisor of Public Utilities in his dissenting order of March 31, 1923, to be just, fair, reasonable and sufficient, been in effect for the year 1923, the return to plaintiff thereunder on the fair value of its property would have been for the State of Washington 5.09 per cent; for the City of Seattle 2.81 per cent; for the City of Tacoma 3.96 per cent, and for the same period a return upon the cost of its property in the State of Washington, as found in said dissenting opinion, of 6.15 per cent; 3.42 per cent for the City of Seattle and 4.73 per cent for the City of Tacoma. And plaintiff avers that the rates and charges set forth in said Exhibit "F" are less than the just and reasonable rates and charges to which plaintiff is lawfully entitled, but plaintiff proposes to establish and put into effect said rates and charges pending the final decree in this cause.

XV. That the plaintiff has no adequate remedy at law, and should it fail to observe the rates and charges specified in said schedule Exhibit "A" and make and enforce the rates and charges as specified in Exhibit "F," or any rates or charges higher than those specified in said Exhibit "A," or any rates not sanctioned by the Department [fol. 16] of Public Works of Washington, the defendants will, unless restrained by the order of this court, institute and cause to be instituted proceedings to compel compliance with said schedule Exhibit "A," and the plaintiff, its directors, officers, agents and employees, will be subjected to a multiplicity of suits and incur the penalties and punishments prescribed by the laws of the State of Washington, and may, under the provisions of said laws, be charged with the commission of gross misdemeanors, each punishable under the laws of Washington by a fine of $1,000, or imprisonment in a county jail of one year, or both.

That unless the defendants are restrained and enjoined as herein prayed, plaintiff, its directors, officers, agents and employees, will be deterred and prevented by the threat of numerous and excessive fines and of imprisonment as aforesaid, from putting into effect the said schedule of rates and charges in said Exhibit "F," or any rates and charges other than those provided in said Exhibit "A," and thereby plaintiff will be forced to submit to the confiscation of its property without due process of law and in violation of its rights under the Constitution of the United States, as herein before alleged. [fol. 17] That unless the defendants are restrained and enjoined, as herein prayed, plaintiff's subscribers and other patrons will be induced and caused to resist and refuse payment of any rates and charges other than those provided in said Exhibit "A." That because of the nature of the business of the plaintiff and the small sums of money generally due monthly from each of its subscribers and patrons, it is impracticable for plaintiff to enforce collection thereof by actions at law, and as a result thereof plaintiff's property will be confiscated as aforesaid. That plaintiff has no practical way to enforce and collect its rates and charges except by cutting off and refusing service for default in payment of its bills rendered monthly

therefor, and its subscribers and patrons will, as plaintiff believes and so alleges, institute large numbers of suits in various jurisdictions throughout the State of Washington to restrain plaintiff from cutting off and denying service for such non-payment of bills and for damages, and plaintiff will thereby be subjected to an endless multiplicity of suits, and plaintiff's property will be confiscated, to plaintiff's irreparable loss and damage, all as hereinbefore alleged.
[fol. 18] That large numbers of suits will be brought in the courts of the State of Washington by defendants and plaintiff's subscribers and patrons to restrain and enjoin plaintiff, its directors, officers, agents and employees, from putting into effect said schedule Exhibit "F," or any schedule other than said Exhibit "A," and to compel plaintiff to furnish telephone service for the unlawful and confiscatory rates provided in said schedule Exhibit "A." That the issues which will be presented in each said suit are presented and should and will be decided in this action.

Wherefore, the plaintiff prays the judgment and decree of this court:

First. That the rates and charges set forth in said schedule Exhibit "A" and prescribed by said Department of Public Works be decreed to be confiscatory, in violation of the Constitution of the United States and the said order of March 31, 1923, imposing the same to be void and of no effect;

Second. That defendants, and each of them, and all other persons, be temporarily and permanently restrained and enjoined from any attempt to compel the plaintiff, its officers, agents and employees, to [fol. 19] observe, maintain or keep in force the rates, tariffs and charges now prescribed by said Department of Public Works, as set forth in said schedule Exhibit "A," filed herewith, or from any attempt to compel the plaintiff to continue to observe or maintain said rates or charges;

Third. That defendants, and each of them, and all other persons, be temporarily and permanently restrained and enjoined from any attempt to interfere with or prevent the plaintiff, its directors, officers, agents and employees, from immediately putting into effect said schedule Exhibit "F" and charging and collecting the rates and charges therein set forth until just and reasonable schedules of rates and charges are established according to law;

Fourth. That the defendants, and each of them, and all other persons, be temporarily and permanently restrained and enjoined from taking any steps or proceedings against the plaintiff, its directors, officers, agents or employees, to enforce any penalty or remedy against the plaintiff, its directors, officers, agents or employees, for disregarding said rates and charges Exhibit "A," or for putting into effect any schedule of rates and charges not in excess of those set forth in Exhibit "F";

[fol. 20] Fifth. That the plaintiff have such other and further relief as may be just and equitable in the premises.

May it please your Honors to grant unto the plaintiff a writ of subpœna of the United States of America issuing out of and under the seal of this Honorable Court directed to the said E. V. Kuykendall, Hance H. Cleland, Frank R. Spinning and John H. Dunbar commanding them, and each of them, on a day certain to be named, and under a certain penalty, to be and appear before this Honorable Court, then and there to answer, but not under oath (answer under oath being hereby expressly waived), all and singular the premises, and to perform and abide by such orders, direction or decree as may be made against them in the premises, and that pending the final hearing of this cause a temporary restraining order may be issued as above prayed.

And the plaintiff will ever pray.

The Pacific Telephone and Telegraph Company, By Otto B. Rupp, Post, Russell & Higgins, Pillsbury, Madison & Sutro, Its Solicitors.

[fol. 21] Jurat showing the foregoing was duly sworn to by G. E. McFarland omitted in printing.

[fol. 22] EXHIBIT "A" TO BILL OF COMPLAINT

The Pacific Telephone and Telegraph Company

Exchange Rates—Seattle, Tacoma, Washington; Farmer Line Rates —Exchanges State of Washington; Toll Rates—State of Washington, Effective August 1, 1919.

W. P. S. C. No. 2, Section 1

The Pacific Telephone and Telegraph Company

Exchange Rate Schedule

Exchange: Seattle, King County, Washington

Business—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$8.50	$8.75
Two-party Line	...	...
Extension (with or without bell)	1.00	1.00
Suburban Service—Ten-party Line (See Section 3)	3.50	3.75

Residence—Unlimited Service

Individual Line	3.75	4.00
Two-party Line	3.00	3.25
Four-party Line	2.50	2.75
Extension (without bell)	.50	.75
Extension (with bell)	.65	1.00
Suburban Service—Ten-party Line (See Section 3)	3.00	3.25

[fol. 23] Primary Rate Area—See Map.

Rates are effective inside Primary Rate Area unless otherwise indicated. For service outside Primary Rate Area, see Mileage Rates, Section 3.

Issued: November 4, 1918. Effective: March 1, 1919.

Cancels and supersedes Exchange Rate Schedule effective September 1, 1916.

P. H. Coolidge, General Commercial Superintendent.

W. P. S. C. No. 2, Section 1

The Pacific Telephone and Telegraph Company

Exchange Rate Schedule

Exchange: Seattle, King County, Washington

Business—Measured Service

	Rate per month		Exchange messages per month	Each additional exchange message
	Wall-set	Desk set		
Individual Line	$6.50	$6.75	130	$.04
Auxiliary Line	2.50	2 75	...	...
Extension (with or without bell)	.75	.75	...	...

Residence—Measured Service

Individual Line	...	...	...	...
Extension (without bell)	...	...	...	...
Extension (with bell)	...	...	...	...

Business—Coin Box Service

	Rate per day		Exchange messages per day	Each additional exchange message
	Wall set	Desk set		
Individual Line	$.15	*	3	$.05
*25c per month additional.				
Extension (with or without bell) per month	1.00	1.00	...	...

[fol. 24] Residence—Coin Box Service

Individual Line	...
Extension (without bell) per month....	...
Extension (with bell) per month	...

Issued: November 4, 1918. Effective: March 1, 1919.
Cancels and supersedes Exchange Rate Schedule effective September 1, 1916.

P. H. Coolidge, General Commercial Superintendent.

W. P. S. C. No. 2, Section 1

The Pacific Telephone and Telegraph Company

Exchange Rate Schedule

Exchange: Tacoma, Pierce County, Washington

Business—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$7.00	$7.25
Two-party Line	6.00	6.25
Extension (with or without bell)	1.00	1.00
Suburban Service—Ten-party Line (See Section 3)	3.50	3.75

Residence—Unlimited Service

Individual Line	3.00	3.25
Two-party Line	2.50	2.75
Four-party Line	2.00	2.25
Extension (without bell)	.50	.75
Extension (with bell)	.65	1.00
Suburban Service—Ten-party Line (See Section 3)	3.00	3.25

Primary Rate Area—See Map.

Rates are effective inside Primary Rate Area unless otherwise indicated. For service outside Primary Rate Area, see Mileage Rates, Section 3.

Issued: November 4, 1918. Effective: March 1, 1919.
Cancels and supersedes Exchange Rate Schedule effective September 1, 1916.

P. H. Coolidge, General Commercial Superintendent.

[fol. 25] W. P. S. C. No. 2, Section 1

The Pacific Telephone and Telegraph Company

Exchange Rate Schedule

Exchange: Tacoma, Pierce County, Washington

Business—Measured Service

	Rate per month		Exchange messages per month	Each additional exchange message
	Wall set	Desk set		
Individual Line	$...	$...	...	$...
Auxiliary Line	...	...	...	...
Extension (with or without bell)	...	...	...	...

Residence—Measured Service

Individual Line	...	...	...	...
Extension (without bell)	...	...	...	...
Extension (with bell).	...	...	...	...

Business—Coin Box Service

	Rate per day		Exchange messages per day	Each additional exchange message
	Wall set	Desk set		
Individual Line	$.15	*	3	$.05

*25c per month additional.

Extension (with or without bell) per month)	1.00	1.00	...	...

Residence—Coin Box Service

Individual Line	...	...	...	...
Extension (without bell) per month....	...	...	...	...
Extension (with bell) per month	...	...	...	...

Issued: November 4, 1918. Effective: March 1, 1919.

Cancels and supersedes Exchange Rate Schedule effective September 1, 1916.

P. H. Coolidge, General Commercial Superintendent.

[fol. 26] W. P. S. C. No. 2, Section 2

The Pacific Telephone and Telegraph Company

Exchange Rate Schedule

Private Branch Exchange Service

Business Hotel—Unlimited Service

	Rate per month
Switchboard, with battery power, ringing circuit and switchboard telephone for each position, equipped for 15 lines..	$2.00
Additional switchboard equipment for each group of 5 lines or less	.20

First bothway trunk line—Individual business rate plus $2.00 per month.

Each additional bothway trunk line—Rate for first bothway trunk line less 25%.

Each incoming trunk line—Individual business rate less 20%, minimum $4.00 per month.

	Wall set	Desk set
Each Station, primary or extension, not in guest rooms (See Mileage Rates, Sec. 3)	$1.00	$1.00
Each Station, primary or extension, in guest rooms:		
1 to 10 inclusive	.50	.75
11 to 20 inclusive	.45	.70
21 to 35 inclusive	.40	.65
36 to 50 inclusive	.35	.60
Over 50	.25	.50

Minimum installation: Two (2) trunk lines and ten (10) stations excluding switchboard telephone.

The switchboard is furnished in any standard size to meet the subscriber's requirements.

Rates are effective inside Primary Rate Area unless otherwise indicated. For service outside Primary Rate Area, see Mileage Rates, Section 3.

Issued: November 4, 1918. Effective: March 1, 1919.

Cancels and supersedes Exchange Rate Schedule effective September 1, 1916.

P. H. Coolidge, General Commercial Superintendent.

[fol. 27] W. P. S. C. No. 2, Section 2

The Pacific Telephone and Telegraph Company

Exchange Rate Schedule

Private Branch Exchange Service

Business Hotel—Measured Service

	Rate per month
Switchboard with battery power, ringing circuit and switchboard telephone for each position	None.
Trunk Lines—Bothway only	None.

(Enough bothway trunk lines will be provided to properly handle the traffic.)

Each exchange message	$.025

	Wall set	Desk set
Each Station, primary or extension, not in guest rooms (See Mileage Rates, Sec. 3)	$1.00	$1.00
Each Station, primary or extension, in guest rooms:		
1 to 10 inclusive	.50	.75
11 to 20 inclusive	.45	.70
21 to 35 inclusive	.40	.65
36 to 50 inclusive	.35	.60
Over 50	.25	.50

Minimum installation: Ten (10) stations, excluding switchboard telephones.

The switchboard is furnished in any standard size to meet the subscriber's requirements.

Rates are effective inside Primary Rate Area unless otherwise indicated. For service outside Primary Rate Area, see Mileage Rates, Section 3.

Issued: September 1, 1916. Effective: September 1, 1916.*

Cancels and supersedes Exchange Rate Schedule effective January 1, 1912.

* In accordance with Order No. 1825 of the Public Service Commission of Washington.

P. H. Coolidge, General Commercial Superintendent.

[fol. 28] W. P. S. C. No. 2, Section 3

The Pacific Telephone and Telegraph Company

Exchange Rate Schedule

Farmer Line Service

Total number of stations	Rate per year
300 stations or less	$3.00
300 to 500 stations	3.60
500 to 750 stations	4.20
750 to 1000 stations	5.40
1000 to 2000 stations	7.20
2000 to 4000 stations	8.40
4000 to 6000 stations	9.60
6000 to 8000 stations	10.80
8000 to 12000 stations	12.00
12000 stations and over	15.00

Company Furnishes.—For not less than 5 subscribers per circuit, switchboard, and facilities to boundary of Primary Rate Area, except where city or town limits are beyond this boundary. In such cases, Company furnishes facilities to city or town limits. Central Office Service. Listing in Directory. Code Ring Card.

Subscriber Furnishes.—Facilities to boundary of Primary Rate Area, except where city or town limits are beyond this boundary. In such cases, subscriber furnishes facilities to city or town limits. Complete telephone and battery, substation protection. Maintenance of above.

Subscriber will be allowed a discount of Ten Per Cent (10%) on the charge for exchange service, if bill is paid at the Company's office during the first month of the year. New subscribers will be billed from the date of connection to the end of the year, and annually in advance thereafter. Initial bills rendered new subscribers will be subject to a Ten Per Cent (10%) discount on the charge for exchange service, provided the bill is paid at the Company's office within thirty days after date of bill.

Farmer Line stations shall not be located within the Primary Rate Area.

[fol. 29] Issued: September 1, 1916. Effective: September 1, 1916.*

Cancels and supersedes Exchange Rate Schedule effective May 14, 1915.

*In accordance with Order No. 1825 of the Public Service Commission of Washington.

P. H. Coolidge, General Commercial Superintendent.

Telegraph and Telephone Service Bulletin No. 22

Order No. 2495

December 13, 1918.

There are many counties and districts in which a free toll service is granted the subscriber within such county or district, the exchange rate presumably having been made with a view of such free toll service. This Order shall not be construed as requiring a discontinuance of these privileges pending a study and revision of these exchange rates.

Nothing in this Order establishing toll rates shall be construed as changing rates made without reference to mileage now established for service within a certain county or other area when such rates are not in excess of ten cents, but no further rates of this character shall be established without specific approval of the Postmaster General.

[fol. 30] In competitive situations where the earning value of a property under Federal control would be unfavorably affected by the establishment of rates and charges herein ordered, an exception may be made by filing with the Postmaster General a statement to that effect with a proposal of modification from ordered rates and such modifications may go into effect unless vetoed or otherwise ordered by the Postmaster General within thirty days and during such thirty days existing rates may be continued.

I. Classification of Toll Telephone Service

The following classes of telephone toll message service shall be established effective at 12:01 A. M. January 21st, 1919.

1. Station-to-station Messages:

This service shall be defined by the following conditions:

(a) Orders for Station-to-Station service shall specify the telephone station called, either by telephone number, or by the name of the subscriber of the called station.

[fol. 31] (b) Under this classification, orders will not be accepted to establish communication between particular persons.

(c) The measurement of the duration of a Station-to-Station message for purposes of the application of rates shall begin at the moment when telephonic communication is established between the called and the calling stations. The term "station" for the purpose of this clause is defined to include a private branch exchange switchboard operator, in those cases where private branch exchange systems are involved in Station-to-Station service.

(d) Station-to-Station service may be operated as a Number Service, in which case the called station may be designated only by number, through A and B Switchboards or through tandem operator, etc: or it may be operated through toll switchboard, and technically known as an "A Y" service, depending on the local circumstances,

operating conditions, plant conditions, and the circumstances as to directory distribution and as to areas; and the more economical method will be employed in each case. The choice of method of operating Station-to-Station service will be determined solely as an operating arrangement not in any way affecting rates or service; [fol. 32] except that where the Number method is employed it is required that order be accepted stating only the telephone number of the called station.

(c) The charges for Station-to-Station messages shall not be "reversed," i. e., collected at the called station.

2. Person-to-person Calls:

This service shall be defined by the following conditions:

(a) Orders will be accepted to establish communication between specified persons.

(b) The measurement of the duration of the Person-to-Person message for the purpose of the application of rates shall begin at the moment when communication begins with or between the particular person or persons specified in the order; provided that certain Report charges will be made under the conditions specified in the clause next below, where communication may not be established.

(c) Orders for Person-to-Person service are accepted only under the condition that a limited charge (to be known as "Report Charge") will be made in the following cases where it is impossible to establish [fol. 33] communication between particular persons:

First. When the order is to establish communication with a particular person in a given city, telephone address unknown, and the particular person cannot be secured within one hour (exclusive of any time during which "no circuit" or other cause prevents communication of the order to the distant city or exchange, or its completion.)

Second. When the designated person called refused to talk.

Third. When the report is returned that the designated person called is "out" or "out and will return at (specified time)" or "out and time of return unknown," "is absent from the city," and similar report advising the calling subscriber of the facts ascertained when failure to complete the order is due solely to the circumstances of the called person or to fault in describing the location of the called person, and when all of the work preliminary to establishing communication with the called person is done.

Fourth. When communication between the designated persons cannot be established because the designated person at the calling [fol. 34] station is absent at the calling station; provided, that no charge shall be made in such cases where the delay, if any, in establishing connection is greater than one hour.

Fifth. When the designated person at the calling station refuses to talk when the facilities for communication have been established.

3. Appointment Calls:

Appointment calls are Person-to-Person calls, the order for which provides that communication is to be arranged for to take place at a specified time.

4. Messenger Calls:

Messenger calls are Person-to-Person calls requiring the use of a messenger to secure attendance of a designated person at one of the public pay stations at the distant point.

5. Collect Calls:

Collect calls are Person-to-Person calls, charges for which are "reversed," i. e., to be collected from the subscriber of the distant station at which the call is to be completed.

[fol. 35] II. Standard Toll Rates for Station-to-station Messages

Effective 12:01 A. M., January 21, 1919, following initial period rates are made standard throughout the United States for Station-to-Station toll messages where the distance between the exchanges, or toll points, does not exceed 40 miles by direct air line measurement:

For distances more than	But not more than	Initial rate is
0 Miles	6 Miles	$0.05
6 "	12 "	.10
12 "	18 "	.15
18 "	24 "	.20
24 "	32 "	.25
32 "	40 "	.30

The following initial period rates are made standard for Station-to-Station toll messages for all distances in excess of 40 miles by direct air line measurement:

For distances more than	But not more than	Initial rate is
40 Miles	48 Miles	$0.35
48 "	56 "	.40

For each additional 8 miles or fraction thereof, 5 cents additional.

[fol. 36] For the purpose of applying standard rates where the direct air line distance between points is in excess of 40 miles, distance shall be determined as the air line distance between the center of blocks seven miles square, within which the points of communication are located, and where the distance is in excess of 350 miles

by the air distance between the centers of section 35 miles square. The block and section scaling system for purposes of measuring toll rate distance between points more than 40 miles distant by direct measurement, shall consist of a grid containing sections 35 miles square, each section subdivided into 25 blocks 7 miles square, so placed on a polyconic projection of a Government Survey map of the United States that section lines coincide with a line drawn approximately north and south through the center of the United States and with a line at right angles thereto passing through the northwestern point of the international boundary line in the *Straight* of Georgia.

III. Standard Toll Rates for Other Classes of Toll Calls

Effective 12:01 A. M., January 21, 1919, the following toll message rates are established for Person-to-Person calls, Appointment calls and Messenger calls:

[fol. 37] 1. The initial period rate for Person-to-Person Calls shall be approximately 25 per cent in addition to the Station-to-Station rate between the same points, in accordance with the schedule of computed rates for person-to-person, appointment and messenger toll calls, attached hereto, and hereby made a part of this order; but no Person-to-Person rate shall be less than 20 cents.

2. In those cases where Person-to-Person calls are not computed and a report is made or the conditions are such as described in paragraph I,2 (c) of this Order, a Report Charge shall be made of approximately one-fourth the initial rate for Station-to-Station messages between the same points, in accordance with these schedules of computed rates for Person-to-Person, appointment and messenger toll calls, attached hereto and hereby made a part of this Order; but no Report Charge shall be less than 10 cents for any one call, nor more than $2.00.

3. The rates for Appointment Calls shall be approximately 50 per cent in addition to the rate for Station-to-Station messages between the same points in accordance with the schedule of computed rates for Person-to-Person, appointment and messenger toll calls, [fol. 38] hereto attached and hereby made a part of this order; but in the case of any Appointment Call order, where the distant station is reached, whether the appointment be made or not, the Report Charge applicable in case of Person-to-Person Calls between the same points shall be made. No Appointment Calls shall be accepted where the Station-to-Station rate is less than 15 cents.

4. The rates for Messenger Calls shall be the same as applied to Appointment Calls between the same points plus any charges that may be required for the service of messenger. No messenger Calls shall be accepted where the Station-to-Station rate is less than 15 cents.

IV. Standard Toll Night Rates

Effective 12:01 A. M., January 21, 1919, the following reductions shall be made in the rate and charges for Station-to-Station messages only, between the hours of 8:30 P. M. and 4:30 A. M.

1. Between the hours of 8:30 P. M. and 12:00 Midnight, the Night Rate for Station-to-Station messages shall be approximately 50 per cent less than the regular Day Rate, in accordance with the schedule of computed night rates, attached hereto and hereby made a [fol. 39] part of this Order; but no Night Rate shall be less than 25 cents.

2. Between the hours of 12:00 Midnight and 4:30 A. M., the Night Rates shall be approximately 75 per cent less than the established Day Rate, in accordance with the schedule of computed night rates attached hereto, and hereby made a part of this Order; but no Night Rate shall be less than 25 cents.

3. For the purpose of applying Night Rates, the time of day at the point at which a Station-to-Station message originates shall be used.

4. Day rate only shall be employed between the hours of 4:30 A. M. and 8:30 P. M.

V. Standard Initial Period, Overtime Period, and Overtime Rate

Effective 12:01 A. M., January 221, 1919, the following initial period, overtime period and overtime rates are made standard in connection with all toll calls and messages made at standard initial toll rates:

[fol. 40] 1. Standard Initial Period and Overtime Period:

Where the initial rate is	The initial period is	The overtime period is
$0.05	5 Minutes	5 Minutes
.10	5 Minutes	3 Minutes
.15	5 Minutes	2 Minutes
.20	5 Minutes	2 Minutes
.25	5 Minutes	1 Minute
.30	3 Minutes	1 Minute
.35	3 Minutes	1 Minute
All other rates	3 Minutes	1 Minute

Where Person-to-Person calls are accepted at the above Initial Rate, the initial period is 3 minutes and the overtime period is 1 minute.

2. Standard Overtime Rates are as Follows:

Where the initial rate is	The overtime rate is
$0.05	$0.05
.10	.05
.15	.05
.20	.05
.25	.05
.30	.10
.35	.10

and thereafter approximately one-third of the initial rate, and in no case more than one-third of the initial rate, in accordance with the table of computed overtime charges hereto attached and hereby made a part of this order.

A. S. Burleson, Postmaster General.

[fol. 41] Schedule of Computed Rates for Person-to-Person, Appointment and Messenger Toll Calls

Where the station-to-station day rate is	The completed person-to-person rate is	The completed appointment and messenger rate is	The report charge is
$.05	Not Quoted	Not Quoted	Not Quoted
.10	Not Quoted	Not Quoted	Not Quoted
.15	.20	.25	.10
.20	.25	.30	.10
.25	.30	.35	.10
.30	.40	.45	.10
.35	.45	.50	.10
.40	.50	.60	.10
.45	.55	.65	.15
.50	.60	.75	.15
.55	.65	.80	.15
.60	.75	.90	.15
.65	.80	.95	.20
.70	.85	1.05	.20
.75	.90	1.10	.20
.80	1.00	1.20	.20
.85	1.05	1.25	.25
.90	1.10	1.35	.25
.95	1.15	1.40	.25
1.00	1.25	1.50	.25
1.05	1.30	1.55	.30
1.10	1.35	1.65	.30
1.15	1.40	1.70	.30
1.20	1.50	1.80	.30
1.25	1.55	1.85	.35
1.30	1.60	1.95	.35
1.35	1.65	2.00	.35
1.40	1.75	2.10	.35
1.45	1.80	2.15	.40
1.50	1.85	2.25	.40
1.55	1.90	2.30	.40
1.60	2.00	2.40	.40
1.65	2.05	2.45	.45
1.70	2.10	2.55	.45
1.75	2.15	2.60	.45
1.80	2.25	2.70	.45
1.85	2.30	2.75	.50
1.90	2.35	2.85	.50
1.95	2.40	2.90	.50
2.00	2.50	3.00	.50
And thereafter increasing in 5 cent steps.	And thereafter 25% in addition to the Station-to-Station day rate. When the Station - to - Station day rate is not evenly divisible by 4, 25% in addition to the Station - to - Station day rate, computed to the next lower multiple of 5 cents.	And thereafter 50% in addition to the Station-to-Station day rate. When the Station - to - Station day rate is not evenly divisible by 2, 50% in addition to the Station - to - Station day rate, computed to the next lower multiple of 5 cents.	And thereafter one - fourth Station - to - Station day rate. When the Station - to - Station day rate is not evenly divisible by 4, one-fourth the Station - to - Station day rate computed to the next higher multiple of 5 cents; but no Report Charge will exceed $2.00.

[fol. 42] Schedule of Computed Night Rates for Station-to-station Toll Messages

When the day rate is	The rate between 8:30 p. m. and 12:00 midnight is	The rate between 12 midnight and 4:30 a. m. is
$.05	Day Rate	Day Rate
.10	Day Rate	Day Rate
.15	Day Rate	Day Rate
.20	Day Rate	Day Rate
.25	Day Rate	Day Rate
.30	.25	.25
.35	.25	.25
.40	.25	.25
.45	.25	.25
.50	.25	.25
.55	.30	.25
.60	.30	.25
.65	.35	.25
.70	.35	.25
.75	.40	.25
.80	.40	.25
.85	.45	.25
.90	.45	.25
.95	.50	.25
1.00	.50	.25
1.05	.55	.30
1.10	.55	.30
1.15	.60	.30
1.20	.60	.30
1.25	.65	.35
1.30	.65	.35
1.35	.70	.35
1.40	.70	.35
1.45	.75	.40
1.50	.75	.40
1.55	.80	.40
1.60	.80	.40
1.65	.85	.45
1.70	.85	.45
1.75	.90	.45
1.80	.90	.45
1.85	.95	.50
[fol. 43]		
1.90	.95	.50
1.95	1.00	.50
2.00	1.00	.50
And thereafter increasing in 5 cent steps.	And thereafter one-half the day rate. When the day rate is not evenly divisible by 2, one-half the day rate computed to the next higher multiple of 5 cents.	And thereafter one-fourth the day rate. When the day rate is not evenly divisible by 4, one-fourth the day rate, computed to the next higher multiple of 5 cents.

[fol. 44]

Where the initial rate is	The initial period is	Overtime rate is	The computed charges are for						
			4 min.	5 min.	6 min.	7 min.	8 min.	9 min.	10 min.
$.05	5 Min.	$.05	$.05	$.05	$.10	$.10	$.10	$.10	$.10
.10	5 Min.	.05	.10	.10	.15	.15	.15	.20	.20
.15	5 Min.	.05	.15	.15	.20	.20	.25	.25	.30
.20*	5 Min.	.05	.20	.20	.25	.25	.30	.30	.35
.25*	5 Min.	.05	.25	.25	.30	.35	.40	.45	.50
.30	3 Min.	.10	.40	.50	.60	.70	.80	.90	1.00
.35	3 Min.	.10	.45	.55	.65	.75	.85	.95	1.05
.40	3 Min.	.10	.50	.60	.70	.80	.90	1.00	1.10
.45	3 Min.	.15	.60	.75	.90	1.05	1.20	1.35	1.50
.50	3 Min.	.15	.65	.80	.95	1.10	1.25	1.40	1.55
.55	3 Min.	.15	.70	.85	1.00	1.15	1.30	1.45	1.60
.60	3 Min.	.20	.80	1.00	1.20	1.40	1.60	1.80	2.00
.65	3 Min.	.20	.85	1.05	1.25	1.45	1.65	1.85	2.05
.70	3 Min.	.20	.90	1.10	1.30	1.50	1.70	1.90	2.10
.75	3 Min.	.25	1.00	1.25	1.50	1.75	2.00	2.25	2.50
.80	3 Min.	.25	1.05	1.30	1.55	1.80	2.05	2.30	2.55
.85	3 Min.	.25	1.10	1.35	1.60	1.85	2.10	2.35	2.60
.90	3 Min.	.30	1.20	1.50	1.80	2.10	2.40	2.70	3.00
.95	3 Min.	.30	1.25	1.55	1.85	2.15	2.45	2.75	3.05
Add 1.00 thereafter increasing in 5 cent steps.	And thereafter 3 minutes for all rates.	And thereafter one-third the initial rate to the nearest multiple of 5 cents, but not more than one-third the initial rate.	1.30	1.60	1.90	2.20	2.50	2.80	3.10

And thereafter in accordance with the above applied system of computation, for each higher rate and each additional overtime period or fraction thereof.

*Where person-to-person calls are accepted at these rates the initial period is 3 minutes and the overtime period is one minute.

[fol. 45] Telegraph and Telephone Service

Order No. 2797

February 17, 1919.

Order No. 2495 issued by me on December 13th, 1918, provided certain charges for classes of telephone toll service to be effective January 21, 1919.

1. To meet public demand for particular person, messenger and appointment calls on short haul toll messages and which in the interest of the public service it is desirable to furnish, the following schedule will become effective February 21, 1919, by all companies furnishing telephone toll service to the public:

For distance of twelve miles or less, station-to-station rate is 10 cents.

The completed person-to-person rate is 15 cents.

Completed appointment and messenger rate is 20 cents.

The report charge is 5 cents.

The initial period for person-to-person messages at an initial rate of 15 cents will be three minutes and the overtime rate will be 5 cents for each additional minute.

In the case of those routes where the companies prior to January 21, 1919, provided station-to-station or two-number service ex-
[fol. 46] clusively, this practice shall be continued hereafter where the distance is 12 miles or less, at the rates prescribed and under the conditions in Order No. 2495. In the case of those routes where there were in effect prior to January 21, 1919, station-to-station or two-number rates of 5 cents for distances not to exceed 6 miles the rate of 5 cents shall be continued.

2. In cases where it has been and is impracticable or impossible to build direct toll lines between communities on account of natural barriers such as mountains, waterways, and so forth, or in other extraordinary or exceptional cases, the operating board is authorized to suspend in part or entirely Order No. 2495, and to restore in whole or in part, the rates in effect immediately prior to January 21, 1919. Where such suspensions are made, the operating board shall make report of each case to me and such suspensions shall continue in effect until otherwise ordered by the operating board or the Postmaster General.

3. Nothing in Order No. 2495 or this bulletin shall be construed as affecting arrangements or basis of settlements between connecting companies in effect on January 20, 1919.

A. S. Burleson, Postmaster General.

[fol. 47] EXHIBIT "B" TO BILL OF COMPLAINT

The Pacific Telephone and Telegraph Company

Toll Rate Schedule Filed October 5, 1922

State of Washington

The Pacific Telephone and Telegraph Company State of Washington Inter-Exchange Rates for Intrastate Telephone Toll Messages

I. Classification of Intrastate Toll Telephone Service

The following classes of telephone toll message service shall be furnished effective 12:01 A. M. —— 21, 1922:

1. Station-to-station Messages.—This service shall be defined by the following conditions:

(a) Orders for station-to-station service shall specify the telephone station called, either by telephone number, or by the name of the subscriber of the called station.

[fol. 48] (b) Under this classification, orders will not be accepted to establish communication between particular persons.

(c) The measurement of the duration of a station-to-station message for purposes of the application of rates shall begin at the moment when telephonic communication is established between the called and the calling stations. The term "station" for the purpose of this clause is defined to include a private branch exchange switchboard operator, in those cases where private branch exchange systems are involved in station-to-station service.

(d) Station-to-station service may be operated as a Number Service, in which case the called station may be designated only by number, through A and B switchboards, or through tandem operators, etc.; or it may be operated through toll switchboards, and technically known as an "AY" service, depending on the local circumstances as to operating conditions, plant conditions, and the circumstances as to directory distribution and areas; and the more economical method will be employed in each case. The choice of method of operating station-to-station service will be determined solely as an [fol. 49] operating arrangement, not in any way affecting rates or service; except that where the number method is employed orders will be accepted stating only the telephone number of the called station.

(e) The charges for station-to-station messages shall not be "reversed," i. e., collected at the called station.

2. Person-to-person Calls.—This service shall be defined by the following conditions:

(a) Orders will be accepted to establish communication between specified persons.

(b) The measurement of the duration of a person-to-person message for the purpose of the application of rates shall begin at the moment when communication begins with or between the particular person or persons specified in the order; provided that certain report charges will be made under the conditions specified in the clause next below, where communication may not be established.

(c) Orders for person-to-person service shall be accepted only under the condition that a limited charge (to be known as "Report Charge") will be made in the following cases where it is impossible to establish communication between particular persons:

[fol. 50] (1) When the order is to establish communication with a particular person in a given city, telephone address unknown, and the particular person can not be secured within one hour (exclusive of any time during which "no circuits" or other cause prevent communication of the order to the distant city or exchange, or its completion.)

(2) When the designated person called refuses to talk.

(3) When the report is returned that the designated person called is "out" or "out and will return at (specified time)" or "out and time of return unknown," "is absent from the city," and similar reports advising the calling subscriber of the facts ascertained when failure to complete the order is due solely to the circumstances of the called person or to fault in describing the location of the called person, and when all of the work preliminary to establishing communication with the called person is done.

(4) When communication between the designated persons can not be established because the designated person at the calling station is absent at the calling station; provided that no charge shall be made in such cases where the delay, if any, in establishing connection is greater than one hour.

[fol. 51] (5) When the designated person at the calling station refuses to talk when the facilities for communication have been established.

3. Appointment Calls.—Appointment calls are person-to-person calls, the order for which provides that communication is to be arranged for to take place at a specified time.

4. Messenger Calls.—Messenger calls are person-to-person calls requiring the use of a messenger to secure attendance of a designated person at one of the public pay stations at the distant point.

5. Collect Calls.—Collect calls are person-to-person calls, the charges for which are "reversed," i. e., to be collected from the subscriber of the distant station at which the call is to be completed.

II. Toll Rates for Intrastate Station-to-station Messages

Effective 12:01 A. M., —— 21, 1922, the following initial period rates are established for toll messages where the distance between exchanges, or toll points, does not exceed 40 miles by direct measurement on a U. S. Government Post Route Map.

[fol. 52]

For distances more than	But not more than	Initial rate
0 Miles	12 Miles	$0.10
12 "	18 "	.15
18 "	24 "	.20
24 "	32 "	.25
32 "	40 "	.30

The following initial period rates are established for station-to-station toll messages for all distances in excess of 40 miles by direct air line measurement:

For distances more than	But not more than	Initial rate
40 Miles	48 Miles	$0.35
48 "	56 "	.40

For each additional 8 miles or fraction thereof, 5 cents additional.

For the purpose of applying standard rates where the direct air line distance between points is in excess of 40 miles, distance shall be determined as the air line distance between the centers of blocks 7 miles square, within which the points of communication are located, and where the distance is in excess of 350 miles by the air line distance between the centers of sections 35 miles square.

The block and section scaling system for purposes of measuring [fol. 53] toll rate distance between points more than 40 miles distant by direct measurement, shall consist of a grid containing sections 35 miles square, each section subdivided into 25 blocks seven miles square, so placed on a polyconic projection of a Government survey map of the United States that section lines coincide with a line drawn approximately north and south through the center of the United States and with a line at right angles thereto passing through the northwestern point of the International boundary line in the *Straight* of Georgia.

III. Toll Rates for Other Classes of Toll Calls

Effective 12:01 A. M., —— 21, 1922, the following toll message rates are established for person-to-person calls, appointment calls, and messenger calls:

1. The initial period rates for person-to-person calls shall be approximately 25 per cent in addition to the station-to-station rates

between the same points, in accordance with the Schedule of Computed Rates for Person-to-Person, Appointment and Messenger Toll Calls, attached hereto, but no person-to-person rate shall be less than 15 cents.

2. In those cases where person-to-person calls are not com-
[fol. 54] pleted and a report is made or the conditions are such as described in paragraph I, 2 (c) of this schedule a report charge shall be made of approximately one-fourth the initial rate for station-to-station messages between the same points, in accordance with the Schedule of Computed Rates for Person-to-Person, Appointment and Messenger Toll Calls, attached hereto and hereby made a part of this schedule; but no report charge shall be less than 5 cents for any one call, nor more than $2.00.

3. The rates for appointment calls shall be approximately 50 per cent in addition to the rates for station-to-station messages between the same points in accordance with the Schedule of Computed Rates for Person-to-Person, Appointment and Messenger Toll Call, hereto attached and hereby made a part of this schedule; but in the case of an appointment call order, where the distant station is reached, whether the appointment be made or not, the Report Charge applicable in case of person-to-person calls between the same points shall be made.

4. The rates for messenger calls shall be the same as applied to appointment calls, between the same points, plus any charges that may be required for the service of messengers.

[fol. 55] IV. Standard Toll Night Rates

Effective 12:01 A. M., —— 21, 1922, the following reductions shall be effective in the rates and charges for station-to-station messages only, between the hours of 8:30 P. M. and 4:30 A. M.

1. Between the hours of 8:30 P. M. and 12 midnight, the night rates for station-to-station messages shall be approximately 50 per cent less than the regular day rates, in accordance with the Schedule of Computed Night Rates attached hereto and hereby made a part of this schedule, but no night rate shall be less than 25 cents.

2. Between the hours of 12 midnight and 4:30 A. M., the night rates shall be approximately 75 per cent less than the established day rates, in accordance with the Schedule of Computed Night Rates attached hereto, and hereby made a part of this schedule; but no night rate shall be less than 25 cents.

3. For the purpose of applying night rates, the time of day at the point at which a station-to-station message originates shall be used.

4. Day rates only shall be employed between the hours of 4:30 A. M. and 8:30 P. M.

[fol. 56] V. Initial Periods, Overtime Periods, and Overtime Rates

Effective 12:01 A. M. —— 21, 1922, the following initial periods, overtime periods and overtime rates are established:

Classification,	Initial Period,	Overtime Period
Station-Station	3 Minutes	1 Minute
Person-Person	2 Minutes	1 Minute
Messenger and appointment	2 Minutes	1 Minute

The Overtime rates shall be—

Station-to-station:

Where the initial rate is	Overtime rate per period
$0.10	$0.05
.15	.05
.20	.05
.25	.05
.30	.10
.35	.10
.40	.10
.45	.15

and thereafter approximately one-third of initial rate and in no case more than one-third of the initial rate.

[fol. 57] Person-to-person and Messenger and Appointment:

Where the initial rate is	Overtime rate per period
*$0.15	$0.05
.20	.10
.25	.10
.30	.15
.35	.15
.40	.20
.45	.20

and thereafter approximately one-half of the initial rate and in no case more than one-half of the initial rate.

*Minimum Messenger and Appointment Rate 20 cents.

Schedule of Computed Night Rates for Station-to-station Toll Messages

When the day rate is	The rate between 8:30 p. m. and 12:00 midnight is	The rate between 12 midnight and 4:30 a. m. is
$.10	Day Rate	Day Rate
.15	Day Rate	Day Rate
.20	Day Rate	Day Rate
.25	Day Rate	Day Rate
.30	.25	.25
.35	.25	.25
.40	.25	.25
.45	.25	.25
.50	.25	.25
.55	.30	.25
.60	.30	.25
.65	.35	.25
.70	.35	.25
[fol. 58] .75	.40	.25
.80	.40	.25
.85	.45	.25
.90	.45	.25
.95	.50	.25
1.00	.50	.25
1.05	.55	.30
1.10	.55	.30
1.15	.60	.30
1.20	.60	.30
1.25	.65	.35
1.30	.65	.35
1.35	.70	.35
1.40	.70	.35
1.45	.75	.40
1.50	.75	.40
1.55	.80	.40
1.60	.80	.40
1.65	.85	.45
1.70	.85	.45
1.75	.90	.45
1.80	.90	.45
1.85	.95	.50
1.90	.95	.50
1.95	1.00	.50
2.00	1.00	.50
And thereafter increasing in 5 cent steps.	And thereafter one-half the day rate. When the day rate is not evenly divisible by 2, one-half the day rate computed to the next higher multiple of 5 cents.	And thereafter one-fourth the day rate. When the day rate is not evenly divisible by 4, one-fourth the day rate, computed to the next higher multiple of 5 cents.

[fol. 59] Schedule of Computed Rates for Person-to-person, Appointment, and Messenger Toll Calls

When the station-to-station day rate is	The completed person-to-person rate is	The completed appointment and messenger rate is	The report charge is
$0.10	$0.15	$0.20	$0.05
.15	.20	.25	.10
.20	.25	.30	.10
.25	.30	.35	.10
.30	.40	.45	.10
.35	.45	.50	.10
.40	.50	.60	.10
.45	.55	.65	.15
.50	.60	.75	.15
.55	.65	.80	.15
.60	.75	.90	.15
.65	.80	.95	.20
.70	.85	1.05	.20
.75	.90	1.10	.20
.80	1.00	1.20	.20
.85	1.05	1.25	.25
.90	1.10	1.35	.25
.95	1.15	1.40	.25
1.00	1.25	1.50	.25
1.05	1.30	1.55	.30
1.10	1.35	1.65	.30
1.15	1.40	1.70	.30
1.20	1.50	1.80	.30
1.25	1.55	1.85	.35
1.30	1.60	1.95	.35
1.35	1.65	2.00	.35
1.40	1.75	2.10	.35
1.45	1.80	2.15	.40
1.50	1.85	2.25	.40
1.55	1.90	2.30	.40
1.60	2.00	2.40	.40
1.65	2.05	2.45	.45
1.70	2.10	2.55	.45
1.75	2.15	2.60	.45
1.80	2.25	2.70	.45
1.85	2.30	2.75	.50
1.90	2.35	2.85	.50
1.95	2.40	2.90	.50
2.00	2.50	3.00	.50
And thereafter increasing in 5 cent steps.	And thereafter 25% in addition to the Station-to-Station day rate. When the Station - to - Station day rate is not evenly divisible by 4, 25% in addition to the Station - to - Station day rate, computed to the next lower multiple of 5 cents.	And thereafter 50% in addition to the Station-to-Station day rate. When the Station - to - Station day rate is not evenly divisible by 2, 50% in addition to the Station - to - Station day rate, computed to the next lower multiple of 5 cents.	And thereafter one-fourth the Station - to - Station day rate. When the Station - to - Station day rate is not evenly divisible by 4, one-fourth the Station - to - Station day rate computed to the next higher multiple of 5 cents; but no Report Charge will exceed $2.00.

[fol. 60] EXHIBIT C TO BILL OF COMPLAINT

The Pacific Telephone and Telegraph Company

Exchange Rates—Seattle-Tacoma, Washington—Filed September 20, 1922, and Not Withdrawn

W. D. P. W. No. 3, Section 1

The Pacific Telephone and Telegraph Company

Exchange Rate Schedule

Exchange: Seattle, King County, Washington

Business—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$12.00	$12.25
Extension (with or without bell)	1.00	1.25
Suburban Service—Ten-party Line (See Section 3)	3.50	3.75

Business Measured Service

	Rate per month		Exchange messages per month	Each additional exchange message
	Wall set	Desk set		
Individual Line	$6.50	$6.75	130	$ .05
Extension (with or without bell)	.75	1.00	...	.....

Semi-public Coin Box Service

	Rate per day		Each exchange message
	Wall set	Desk set	
Individual Line	$ .25	$ *	$ .05

[fol. 61] *25c per month additional.

Extension (with or without bell) per month	1.00	1.25	.....

Residence—Uulimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$4.75	$5.00
Two-party Line	4.00	4.25
Four-party Line	3.25	3.50
Extension (with or without bell)	.75	1.00
Suburban Service—Ten-party Line (See Section 3)	3.00	3.25

Primary rate area—See Map.

Rates are effective inside Primary Rate Area unless otherwise indicated. For service outside Primary Rate Area, see Mileage Rates, Section 3.

Farmer Line Service (See Section 3), each station, $15.00 per year.

Issued: October 2, 1922. Effective: November 1, 1922.

Cancels and supersedes Exchange Rate Schedule effective March 1, 1919.

P. H. Coolidge, General Commercial Superintendent.

W. D. P. W. No. 3, Section 1

The Pacific Telephone and Telegraph Company

Exchange Rate Schedule

Exchange: Tacoma, Pierce County, Washington

Business—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$10.00	$10.25
Extension (with or without bell)	1.00	1.25
Suburban Service—Ten-party Line (See Section 3)	3.50	3.75

[fol. 62]

Business—Measured Service

	Rate per month		Exchange messages per month	Each additional exchange message
	Wall set	Desk set		
Individual Line	$5.50	$5.75	110	$.05
Extension (with or without bell)	.75	1.00	...	....

Semi-public—Coin Box Service

	Rate per day		Each exchange message
	Wall set	Desk set	
Individual Line	$.20	$ *.	$.05
*25c per month additional.			
Extension (with or without bell) per month	1.00	1.25	....

Residence—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$4.00	$4.25
Two-party Line	3.25	3.50
Four-party Line	2.75	3.00
Extension (with or without bell)	.75	1.00
Suburban Service—Ten-party Line (See Section 3)	3.00	3.25

Primary rate area—See Map.

Rates are effective inside Primary Rate Area unless otherwise indicated. For service outside Primary Rate Area, see Mileage Rates, Section 3.

Farmer Line Service (See Section 3), each station $15.00 per year.

Issued: October 2, 1922. Effective: November 1, 1922.

Cancels and supersedes Exchange Rate Schedule effective March 1, 1919.

P. H. Coolidge, General Commercial Superintendent.

[fol. 63] W. D. P. W. No. 3, Section 2

The Pacific Telephone and Telegraph Company

Exchange Rate Schedule

Semi-public

Private Branch Exchange Service

Hotels desiring intercommunication between guest rooms stations and management stations and exterior service for both guest room and management stations shall be furnished semi-public private branch exchange service subject to the following conditions:

(a) The hotel proprietor is required to become and act as the telephone company's agent in furnishing and selling telephone service to guests.

(b) The hotel agreeing:

(1) To charge the authorized rates for all telephone service rendered to guests and patrons.

(2) To collect for the telephone company at the established rates for exchange and interexchange service the charges incurred by patrons and guests and to remit such charges to the telephone company.

(3) To maintain service at proper standards.

(4) To furnish all operating at the private branch exchange switchboard for the transmission supervision and recording of messages sent to the central office from the private branch exchange system.

(c) The telephone company agreeing:

(1) To furnish facilities and exchange service in accordance with the following schedules, and interexchange service at published rates.

(2) To pay the hotel a commission on exchange and interexchange messages originating at guest room and lobby stations and charged to the hotel.

[fol. 64] Switchboard with Battery Power Ringing Circuit, Position Dial, Switchboard Telephone, Each Position

	Rate per month
Cordless type	$3.00
Non-multiple cord type:	
10 lines or less in use	5.00
11—30 lines in use	6.00
31—60 lines in use	7.00
61—100 lines in use	8.00
101—150 lines in use	9.00
151—200 lines in use	10.00
201—260 lines in use	11.00
261—320 lines in use	13.00
Multiple cord type:	
Each position with not to exceed one multiple jack per line	15.00
Each additional strip of ten multiple jacks or portion thereof	.30
(a) Stations in hotel office and other locations on premises in which switchboard is located for the exclusive use of the hotel management:	
Each station, without dial—Wall Set	1.00
Desk Set	1.25
Each station, with dial—Wall Set	1.25
Desk Set	1.50

Stations outside premises in which switchboard is located, See Mileage Rates—Sec. 3.

(b) Stations in guest rooms and lobby:

Each station, without dial—Wall Set.....	.50
Desk Set.....	.75
Each station, with dial—Wall Set.....	.75
Desk Set.....	1.00

Stations furnished in hotel lobbies connected to the switchboard attended by the hotel operator shall be provided with coin boxes (post-payment type) provided they are distinctly placarded as hotel telephones so as to be distinguished from the telephone company's regular public telephone station. Stations without coin boxes may be furnished at the hotel desk for the convenience of visitors inquiring for guests
[fol. 65] when restricted to interior use. Any additional facilities that might be required with such stations, such as booths, coin boxes, switchboards, etc., to be furnished and charged the hotel at regular rates.

(c) Trunk lines to central office for use in connection with stations in hotel office and other locations for the exclusive use of hotel management.

Outgoing trunk lines only.

Individual line business unlimited rate.

Tie lines between separate switchboards—See Mileage Rates, Section 3.

Bothway trunk lines to central office for use in connection with stations in guest rooms and lobby and for all incoming messages to be furnished without charge to meet traffic requirements.

The rate for each local exchange message originating at stations in guest rooms and lobby and passing through the hotel private branch exchange switchboard to the central office shall be five cents except that in those cases where the additional service rendered the public at the hotel warrants, a rate of ten cents for each of these local exchange messages may be charged when applied for by the hotel and accepted by the Telephone Company.

The mechanical or electrical design of the private branch exchange will be such that guest room and lobby stations can not be connected to the outgoing trunk lines provided for the exclusive use of the management.

If the switchboard is to be installed outside the primary rate area, see Mileage Rates, Section 3.

Issued: October 2, 1922. Effective: November 1, 1922.

Cancels and supersedes Exchange Rate Schedule effective March 1, 1919.

P. H. Coolidge, General Commercial Superintendent.

[fol. 66] EXHIBIT "D" TO BILL OF COMPLAINT

Findings of Fact, Order, and Opinion

Cases Numbers 4902 and 5344

(Majority Opinion)

BEFORE THE DEPARTMENT OF PUBLIC WORKS OF WASHINGTON, DIVISION OF PUBLIC UTILITIES

Nos. 4902 and 5344

THE DEPARTMENT OF PUBLIC WORKS OF WASHINGTON ex Rel. THE City of Seattle, The City of Spokane, The City of Tacoma, Washington Hotel Men's Association, Seattle Chamber of Commerce, The Port of Seattle, King County, Washington, Tacoma Chamber of Commerce, Complainants

vs.

PACIFIC TELEPHONE AND TELEGRAPH COMPANY and HOME TELEPHONE AND TELEGRAPH COMPANY OF SPOKANE, Respondents,

THE PUBLIC SERVICE COMMISSION OF WASHINGTON, Complainant,

vs.

PACIFIC TELEPHONE AND TELEGRAPH COMPANY, Respondent

Findings of Fact, Order, and Opinion

[fol. 67] History of the Case

On October 29, 1921, the Department received from the King County Legislative Federation and the Women's Civic Club of Seattle a petition wherein they requested an investigation and revision of the rates of the Pacific Telephone and Telegraph Company in Seattle and King County. Thereupon the Department advised them that a determination of the telephone rates for Seattle and King County could only be made, legally, after the filing of a formal complaint, an investigation and study of the entire system of the Pacific Telephone and Telegraph Company in the State of Washington, the holding of public hearings and the entry of written findings of fact and order, but that the Department would proceed to that end. Accordingly, after some preliminary preparation and on January 21, 1922, the Department prepared, filed and served its formal complaint challenging the reasonableness of the rates, rules, regulations and contracts of the Pacific Telephone and Telegraph Company and the Home Telephone and Telegraph Company of Spokane (the latter being an associate or subsidiary company of the Pacific Company). [fol. 68] The Department's engineering and accounting staff, was forthwith directed to proceed with and to make, in co-operation with

engineers and accountants employed by the cities or other interested complainants, a thorough and complete analysis, investigation and report on all matters which could and should be considered in a final determination of the matter before the Department.

Concurrently with the filing of the complaint, a letter, with a copy of the complaint enclosed, was directed to the Mayor, Council or Commission and City Attorney in each and every city and town in the state served by the two telephone companies mentioned, calling attention to the fact that the proceeding and investigation had been instituted, and asking co-operation in the investigation.

March 3, 1922, the City of Seattle filed its complaint in this case with practically the same allegations as those found in the Department's complaint, except that, in addition thereto, the city prayed the issuance of a general reparation order on the ground that the existing rates were illegal.

On or about October 1, 1922, the City of Spokane secured the services of Messrs. Hardinger and Ridley. These men, together with [fol. 69] our own engineering and accounting staff, worked continuously upon this investigation until the time of the hearing. The City of Tacoma made available for checking with our engineering staff, Messrs. Gray and Towne of its electrical department.

On September 20, 1922, the respondent telephone companies filed with the Department exchange rate schedules proposing revised increased rates applicable to all exchanges of those companies in the State of Washington.

On September 24, 1922, the Department issued its order suspending the effective date of these rates for the full statutory period and directing that the company file for the consideration of the Department a toll rate schedule conforming in principle with their pre-war toll rate schedule.

On September 28, 1922, the city of Spokane filed its complaint challenging the reasonableness and the legality of the proposed exchange rate schedule.

On October 5, 1922, the telephone companies filed the toll rate schedules as directed, and concurrently therewith filed with the Department a withdrawal and cancellation of their proposed exchange rate schedules, except as applied to the cities of Seattle, Spokane and Tacoma.

[fol. 70] Subsequently, various complaints and letters were received by the Department relative to the proposed increase, comprising some seven hundred and fifty individuals, corporations and associations. To each of these, a personal letter was addressed by the Department, enclosing a copy of the complaint and suspension order, calling attention to the investigation under way and inviting the writer of the letter or signor of the petition, to be present at hearings subsequently to be held.

On December 14, 1922, the Washington Hotel Men's Association filed its complaint protesting the change proposed to be made by the companies in rates particularly applicable to hotels.

On December 18, 1922, after due notice to all parties, the first

hearing in this case was held in the City of Olympia, at which time original evidence of all parties relative to matters of valuation was submitted and some cross-examination of the witnesses had. An adjournment was taken to January 22, 1923, at Spokane, January 24th at Seattle, and January 29th at Tacoma, at which time all witnesses who had testified on valuation were present for cross-examination upon the testimony given in the original hearing. Follow- [fol. 71] ing the cross-examination of these witnesses, the telephone companies were required to submit proof in support of their proposed rate increases, and some cross-examination was had of these witnesses in each instance.

At the conclusion of the January hearings, an adjournment was again taken to February 23rd at Seattle, February 26th at Tacoma and February 28th at Spokane. At these latter hearings, all rate witnesses who had testified at the January hearings were present for cross-examination, and upon the conclusion of that cross-examination the cities, the Washington Hotel Men's Association and others offered their proof as opposing that of the companies, and the Department's chief engineer submitted a report embracing the results of the investigation made by himself and staff and the matter was then submitted for determination.

All hearings, except the one held at Olympia, were held in the assembly room of the respective commercial clubs or chambers of commerce in each of the three cities, Seattle, Spokane and Tacoma, and in each instance the secretary of the chamber of commerce or commercial club was notified of the time and place of the hearing, and request made for the use of their assembly room.

[fol. 72] In addition to the legal notices sent to the parties of record, the Department in each instance, without being required by law so to do, some ten days prior to each hearing, addressed seven hundred and fifty personal and individual notices to all parties who had addressed us by letter or petition upon the subject of telephone rates, calling their attention to the time and place of the hearing and to the matters to be considered at that time and place.

At the hearings in the cities of Tacoma and Spokane, some thirty-five or forty business and professional men appeared and showed the effect of the company's proposed rates in their individual cases.

At all of the hearings, each of the cities, Seattle, Tacoma and Spokane, was represented by its corporation counsel, engineers and accountants.

All the complaints were consolidated for the purpose of hearing and the hearings were joint hearings under the administrative code, requiring a joint decision by the Director of the Department and the Supervisor of Public Utilities and the Supervisor of Transportation.

[fol. 73] From a careful consideration of the record and being advised as to the law, we enter the following findings of fact (with a discussion of each).

Findings of Fact

I

Rate Base

Finding

The value of the telephone properties of the Pacific Telephone and Telegraph Company in the state of Washington, including the Spokane Exchange, used and useful in public service, was, as of June 30, 1922, $32,108,853.76, which amount is fixed as the rate base as of that date.

Discussion

The respondents in this case have contended for a value (termed by them fair value) in the amount of $40,000,000. This contention is fully answered, to the contrary, by our own Supreme Court in State ex rel. Spokane Gas Light Company v. Kuykendall, 119 Wash. 107.

Our discussion of the Spokane Exchange valuation has been fully covered in separate findings and order. On account of change of [fol. 74] ownership of a portion of the property and the consolidation of two systems, the Spokane plant was of necessity treated in an original proceeding.

As to the value of the Pacific Company's plant in Washington, the procedure was merely to bring up to date the valuation made in 1914 by the Public Service Commission, adding thereto the net additions and betterments from December 31, 1914, to June 30, 1922.

In these findings and this order, all of the property of the Pacific Telephone and Telegraph Company and the Home Telephone and Telegraph Company of Spokane will be treated as one system and the property in Spokane will be treated as an exchange of the Pacific Telephone and Telegraph "system." Technically, the Home Telephone and Telegraph Company of Spokane is a separate entity, but it is common knowledge that it is maintained as a separate entity for franchise purposes only. All of the stock of the Home Company, except a few directors' qualifying shares, is owned by the Pacific Company and for all practical purposes the Spokane plant is in fact an exchange or part of the Pacific system just as are Seattle and Tacoma; therefore, the valuation made of the Spokane Exchange is treated as an integral part of a state-wide system and the rates to be [fol. 75] fixed herein will bear the same relation to the system as do the rates for Seattle and Tacoma.

Due consideration has been given to the items "Construction Work in Progress" and "Due from Subscribers and Agents," and we are of the opinion that these two items should properly be included in the rate base and in the amount above set out they have been so included.

The Public Service Com-ission of Washington, in its order in

Causes 1810-1825, placing a value for rate making purposes upon the properties of the Pacific Telephone and Telegraph Company in the State of Washingtno, did not allow as an element of value the item of "Due from Subscribers and Agents." Investigation in the present case disclosed the fact that the amounts shown in the applicants' exhibits and in the report of the Department's engineer as "Due from Subscribers and Agents" represent balances due from subscribers and agents for services rendered previous to the dates as of which the balances were taken and do not contain any amounts representing advance billing. Such accounts receivable are a recognized element of value for rate making purposes and it has always been the practice of this Department to treat them as such. There [fol. 76] appears to be no reason for it to depart from its practice in this case.

Some contention was made during the course of the hearing relative to the exclusion of certain properties from the rate base, particularly in Seattle, where a large development has been made by the Pacific Company during the past few years. This property is covered by the account "Construction Work in Progress" which, being a balance sheet account, is not ordinarily grouped with the fixed capital accounts in arriving at a rate base. It is our opinion enlarged on in the following discussion, that "Construction Work in Progress" should be included in the rate base.

The Department's engineers, in the first volume of their report, dealing with the rate base, contended that "Construction Work in Progress" should not be included in the rate base, giving as a reason the fact that a utility is permitted to capitalize interest upon funds employed in construction work and that to include "Construction Work in Progress" in the rate base would make possible a double earning during the construction period upon the same investment. In the second volume of their report, the Department's engineers modified their position to the point of including "Construction Work [fol. 77] in Progress" in the rate base but, as a compensating factor, including in operating income the interest accrued during the construction period. The reasons for their change of position, as stated on pages 5 and 6 of volume two of their report, are as follows:

"A review of the evidence received at the first hearing in the present case, concerning the proper treatment of construction work in progress, has led to the conclusion that the extreme views as to this factor have been presented by the Company on one hand and by the Department's engineers on the other. Construction work in progress was included in the rate base by the company, and excluded from the rate base by the Department's engineers, without consideration having been given by either to all of the facts which it is believed are pertinent to a consideration of the ultimate effect upon the rate base and upon operating income. Under the method proposed by the Company, no consideration is given to the interest earnings of funds employed in construction work in progress; while, under the method first proposed by the Department's engineers, consideration was not given to the fact that, if the Company were not permitted

to earn on funds employed in construction work, it must be permitted to capitalize interest during the entire construction period between the initiation of the work and the date of its actually coming into service. The effect of this, particularly in the case of Seattle, where an extremely large construction program is now being carried on, [fol. 78] would be to pyramid the rate base and add to the burden of the rate payer during the entire future life of the plant."

Funds employed in construction work are as fully devoted to the public service as are funds invested in completed plant, in materials and supplies, or in the cash required to meet current expenditures. The necessity of an allowance for cash, materials and supplies, and other items of working capital, is recognized by all regulatory bodies and there is no question as to the propriety of permitting an earning upon these items in their final form when they appear as additions to the fixed capital accounts. Since "construction work in progress" represents nothing more or less than cash and materials and supplies in their transitional stage between working capital and completed plant, it seems as clearly entitled to inclusion in the rate base as it was as working capital or as it will be as completed plant.

There is, however, a further factor in this consideration, which is "Interest during Construction." Funds employed in construction work are entitled to a fair earning. If the funds be borrowed, the creditor is receiving an earning and the utility is suffering no loss since it is permitted to capitalize the interest it pays out. This cap- [fol. 79] italization creates a value upon which the utility is permitted to earn and which presumably can be sold if the plant changes owners. If the utility capitalizes interest on its own funds there is an actual increase in its surplus. These facts must be recognized when considering the propriety of including "Construction Work in Progress" in the rate base.

The rate of return from operations seldom coincides with the rate at which interest during construction is capitalized; furthermore, the applicant does not capitalize interest upon routine construction work requiring less than one month for completion. Therefore, the most equitable method of treatment appears to be to include "Construction Work in Progress" in the rate base and to include the interest accretions with operating income, which method acts as an automatic governor to compensate the rate payer, if the rate of capitalization of interest be more, and the company if it be less, than the rate of return from operations.

II

Depreciation

Finding

We find that the annual depreciation charge should be reduced from approximately 6 per cent to 3½ per cent for the period of two [fol. 80] years from April 1st, 1923.

Discussion

One of respondents' engineers testified that "depreciation is the sum annually set aside to replace property either worn out or become obsolete in service. In other words, it is the sum that is set aside which, at least theoretically, will keep the plant up to service standard, and keep the dollar whole that is in the business."

Under this view, if a utility investment of one million dollars depreciates in value to $900,000.00, the just amount of depreciation reserve would be $100,000.00.

Stated in another way, the depreciation reserve should at all times approximately equal the difference between the original value and the present depreciated value of the property.

The respondents have not furnished any statement of debits against depreciation reserve segregated as to the State of Washington. In a recent twelve-year period, the amount set aside by the Pacific Telephone and Telegraph Company (not limited to the state of Washington) has been $41,212,207.00. The realized depreciation, or the amount withdrawn from the reserve for replace- [fol. 81] ments, has been $20,137,489.00, leaving a balance of $21,074,718.00 less certain expenditures for extraordinary repairs and other unusual items. In other words, the replacement expenditures have been approximately fifty per cent of the amount set aside for depreciation purposes. In percentage it has been about five per cent per annum, with this company as a whole and slightly more than six per cent in the State of Washington for several years past.

At the close of the year 1914, the balance in the depreciation reserve of the company was $10,369,854.00. Prorating this to State of Washington on the basis of plant values, the balance for Washington was $2,418,457.00. Had the company adopted a three and one-half per cent rate of depreciation at the beginning of the year 1915, and debited the depreciation reserve at the company average of 2.47 per cent, the depreciation reserve as of June 30, 1922, would have been $3,945,493.00, or approximately 16 per cent of the depreciable plant value as of the same date. Taking the actual credits to the depreciation reserve, for Washington, and debiting for current replacements at the above rate of 2.47 per cent the balance in the reserve as of June 30, 1922, should have been $7,711,014.00 or [fol. 82] nearly one-third of the depreciable plant value.

We have found the property of respondents in the State of Washington to be about 85 per cent physical condition.

Under the view expressed by the witness referred to, the depreciation reserve should be approximately 15 per cent of the depreciable property, where the same is found to be 85 per cent physical condition. Had the company accumulated a depreciation reserve at a rate of three and one-half per cent since 1914, the balance would by now be more than 15 per cent as heretofore shown.

In the above calculations we have used the straight line method. If either the sinking fund or annuity method were used by which interest is added to balances, the surplus would be still greater.

The case of "Re Wisconsin Telephone Company" P. U. R. 1922,

B. P. 553, decided by Wisconsin Railroad Commission, involved an application of the telephone company for increased rates in the City of Milwaukee. The facts disclosed that the depreciation reserve balance was about one-third of the fixed capital in the Milwaukee exchange.

[fol. 83] The commission fixed the rate of depreciation at three and one-half per cent. We quote the following:

"It is evident that the credits to this reserve for the Milwaukee exchange since 1909 have been excessive and that a charge to operating expenses equalling three and one-half per cent of the depreciable property would have, so far as experience at present shows, been ample to supply a safe margin to meet losses on property retired from service in the Milwaukee exchange, to which exchange alone this discussion relates. The use of three and one-half per cent for the purpose of this case is based upon the assumption that the company is correct in its claim that the charges to the depreciation reserve in the future will of necessity considerably exceed the charges in the past and during the war period."

In this case the evidence satisfies us that the charges to the depreciation reserve in the future will be less than in the past.

Modern telephone equipment is more durable than that of earlier periods.

The buildings, pole lines, and other construction by respondents have in recent years been of a substantial, durable and expensive type, which will depreciate more slowly than earlier construction, much of which has already been replaced.

[fol. 84] The addition of these high grade units materially increases the rate base upon which the consumer must pay a return and any saving in the way of lessened depreciation should be reflected somewhere in a computation to determine a reasonable rate.

Measured by the facts stated and principles announced in the Wisconsin case supra, the reduction of the depreciation allowance to three and one-half per cent for a test period of two years is amply justified. In the Wisconsin case the reduction was not limited to a specified period.

Another reason which to our mind justifies a trial period is the fact that the Interstate Commerce Commission is now engaged in a study of the problem of depreciation as applied to telephone properties, under the provisions of paragraph (5) of Section 20, of the Interstate Commerce Act.

The first hearing will be held May 1, 1923. The notice of the hearings announces that the straight line, annuity, and sinking fund methods of determining depreciation charges will be investigated. Without conceding that the Interstate Commerce Commission has power to prescribe a method of computing depreciation as applied to telephone properties, which would be binding upon a [fol. 85] state regulatory body in the regulation of purely intrastate traffic, we believe that the results of this investigation will be of immense value in arriving at correct methods of determining de-

preciation and for this reason have limited the rate herein prescribed to a two-year period. The final determination of the I. C. C. should be announced within that time.

We are convinced, that measured by any reasonable rule or theory, the depreciation allowance of the respondents in the State of Washington in the past has been greater than necessary. When the depreciation reserve of any public utility becomes greater than the facts of the particular case justify, we believe it proper for the regulatory body to reduce the depreciation allowance, until the amount of the depreciation reserve reaches a proper level.

We will, therefore, order in this case that the depreciation allowance for the two-year period beginning April 1, 1923, shall not exceed three and one-half per cent per annum on the depreciable property of the respondents.

We are not determining hereby a rate of depreciation to be applied generally, in telephone cases. We are here confronted with the fact that more money has accumulated in this fund than neces- [fol. 86] sary, and we are merely reducing the flow until the proper level is reached.

III

The Four and One-half per Cent Contract Licensee Revenue Dr.

Finding

We find that the Four and One-half per cent Contract between the Pacific Telephone and Telegraph Company and the American Telephone and Telegraph Company is wrong in principle, contrary to public policy and the compensation thereunder should be computed on the per station basis rather than a percentage of revenue. We find a reasonable charge per annum for the services rendered under said contract to be 90 cents per station.

Discussion

This is a uniform contract required by the American Telephone and Telegraph Company of all subsidiary companies.

Under this so-called four and one-half per cent contract the respondents are obligated to pay the American Telephone and Telegraph Company four and one-half per cent of substantially all of their gross operating revenue for certain rights and services. We [fol. 87] have no power to prevent any public utility from entering into a contract with a parent company to share with it any portion of its profits. We have the right, however, to say whether such share or any part thereof shall be treated as an operating expense. Even at the risk of differing from our predecessor, The Public Service Commission, we are compelled to say that we are not in sympathy with this kind of business. If the parent company performs any service or furnishes any equipment for which payment should be made, such compensation should be based on the value of the service rendered or the reasonable rental of the equipment fur-

nished rather than upon a percentage of operating revenue. We are opposed to an expense item that arbitrarily increases as the revenue increases.

If an increase in rates is allowed in this case, it means that four and one-half per cent of the increase will accrue to the American Telephone and Telegraph Company, and there is no evidence that such company is in need of additional revenue, and the local company will receive no more from the parent company than it is now receiving. This four and one-half per cent contract has been a "thorn in the flesh" in every community where the respondents operate. It [fol. 88] gives rise to suspicions of concealment and dishonesty in every hearing in which it is involved. Not having power to annul it, we believe the respondents and the American Company owe it to the public to wipe it out and put their dealings with the parent company on the basis of actual value of the service rendered and on a plane that is understandable to the average citizen. However innocent or meritorious it may be in fact, this contract is an endless source of controversy and misunderstanding. The American Telephone and *Telephone* Company has in its employ trained and skilled experts who appear at hearings in which this contract is questioned and present skillful expositions of its provisions, and undertake to justify its existence, and yet public distrust of it has increased rather than diminished. We are aware that some courts and commissions have given it their endorsement but after careful consideration we cannot do so. We believe that a utility that has a proper appreciation of the elements that establish wholesome public relations should take steps to remove such a proven source of discord.

In the case of "In re Michigan State Telephone Company P. U. R. 1923-A, page 764," decided by the Public Utilities Commission of [fol. 89] Michigan less than a year ago, the Commission said: "The four and one-half per cent contract between the American Telephone and Telegraph Company and the Michigan State Telephone Company is not a contract between corporations dealing at arms length but one between the superior and the inferior—a controlling and a controlled company—the parent company and its subsidiary—the parent company and its Child. The contract is in effect a contract made by the American Telephone and Telegraph Company as proprietor with the agents of itself as owner of the stock of the Michigan State Telephone Company. The directors and officers of the Michigan State Telephone Company are its directors and officers because they are made so by a vote of the American Telephone and Telegraph Company as stockholders of the Michigan State Telephone Company."

The Commission further states: "In this case the directors and officers of the Michigan State Telephone Company are elected, directed, influenced and controlled by the American Telephone and Telegraph Company. They exercise not their own judgment and discretion but the judgment and discretion of the American Telephone and Telegraph Company which made and may unmake them. [fol. 90] Under the law of this state the four and one-half per cent contract is at least presumptively void."

Substantially the same relations exist between the respondents in this case and the American Telephone and Telegraph Company as existed between the Michigan Company and the American Company. In the same case the Michigan Commission further states:

"Conceding the invalidity of the four and one-half per cent contract, the American Telephone and Telegraph Company is entitled to be reimbursed for the cost of services performed by it for the Michigan State Telephone Company and to have the integrity of its property used by the Michigan State Telephone Company maintained."

The Commission then proceeds with an exhaustive analysis of the services rendered by the American Telephone and Telegraph Company which are substantially similar to those rendered under a like contract with the respondents in this case, and concludes that ninety cents per station is a just allowance therefor. The respondents in this case have 179,614 stations. Ninety cents per station would amount to $161,653. The amount called for by the four and one-half per cent contract on existing rates is $388,365. In other words, the Michigan Commission makes an allowance of something [fol. 91] like two per cent instead of four and one-half per cent as provided in the contract. Without going into a further discussion of the value of the services and privileges paid for by the four and one-half per cent fixed in this contract, we will allow 90 cents per station as an operating expense and disallow the remainder.

A few months ago the Nebraska State Railroad Commission in the case of Re Northwestern Bell Telephone Company, 1923 P. U. R. (Adv. Sheets) p. 165, speaking of this contract said: "Considering the question here discussed it appears to us that the basis of charge as provided in the contract is fundamentally wrong and condemned specifically by the Supreme Court of the United States. The company applies the percentage to certain gross revenues received by the applicant. The more revenues the more the charge against revenues for the benefit of the American Company, which method of calculation constitutes a circle,—the more the rates the more the charge, ad infinitum."

In the Minnesota Rate case (Simpson v. Shepard), 230 U. S. 232, Mr. Justice Hughes used the following language:

"The value of the use as measured by rate cannot be made the criterion when the rate itself is in question."

[fol. 92] In the case of the City of Houston v. Southwestern Bell Telephone Company etc., U. S. Supreme Court Advance Opinions 1921-22, No. 16, July 1, 1922 p. 539, is cited by respondents as supporting the contract, but the opinion clearly states that the fact that one company owns stock in another "requires close scrutiny of their dealings to prevent imposition upon the community served by the company."

We have tried to give close scrutiny to this contract and have reached the conclusion heretofore stated.

Even if an allowance equal to two and one-half per cent is made

as an operating expense under this contract the results would not differ materially.

The Pacific Company assigns as a reason for not disturbing this contract that the American Telephone and Telegraph Company and its subsidiary concerns have builded their business and accounting methods upon it. In our opinion if this be true they have builded unwisely on a crumbling foundation.

[fol. 93]

IV

Machine Switching Project

Finding

We find that the installation of machine switching in Seattle is justified.

Discussion

Machine switching has been installed to replace manual operation in three of the offices of the City of Seattle. Three other offices will be converted to machine switching in the near future. The testimony of respondents' experts is not clear as to what saving in expense, of any, will be made by the substitution of automatic for manual operation. We are satisfied, however, that a material economy will be brought about by the installation of machine switching. In addition to the somewhat unsatisfactory testimony upon this point, we cite an article by a recognized authority on such matters, in Vol. 38, Part 2, of the American Institute of Electrical Engineers page 1571, where the following statement appears:

"Telephone exchanges must pay their way. If automatic exchanges do not pay, there would not be any of them left in existence today, for this movement is twenty-seven years old. Five exchanges [fol. 94] formerly manual were converted to automatic. They range in size from 2,300 lines and 4,400 telephones to 38,000 lines and 44,000 telephones. The totals for the five were 47,000 lines and 65,000 telephones. The comparison of expenses is as follows:

	Manual	Automatic
Total operating and maintenance expenses per year	$552,600.00	$136,800.00
Average per line per year	11.77	2.92
Average per telephone year	8.50	2.11

In other words, the operating and maintenance expenses of automatic operation in the case of these five exchanges were about one-fourth the operating and maintenance expenses of manual operation. We do not anticipate such favorable results in a multi-office exchange such as Seattle, but a material saving should ultimately result. The automatic devices used in the five exchanges above referred to are not those of the Western Electric Company, as installed in Seattle, but it is safe to assume that the Western Electric machine

switching devices are superior from the standpoint of economy and efficiency. They are a later and somewhat costlier product, and we [fol. 95] assume that a concern such as the Pacific Telephone and Telegraph Company would not install a device of inferior type.

We must therefore conclude that the installation of the machine switching devices in Seattle will on the whole reduce the company's expenses, and our conclusions and order in this case will be made with that assumption in view.

In arriving at this conclusion we have taken into consideration the greater fixed charges which will accrue on the automatic system by reason of the greater capital outlay.

In addition to financial economies, the installation of machine switching to replace manual equipment is further justified for the following reasons:

1. Speed of connection and disconnection.

2. Ease of obtaining connection and disconnection.

3. Accuracy of connection.

4. Voice transmission.

5. Secrecy.

There is also the elimination of some of the faults inherent in manual operation such as

1. Fluctuations in service.

2. Impairment of service by epidemics, strikes, etc.

[fol. 96] 3. The mistranslation of calling subscribers' desires.

V

Return

Finding

The rate of return to be realized under existing rates and by application of the proposed increased rates, is shown in the following income statement adjusted to meet the views heretofore expressed in relation to depreciation allowance and the four and one-half per cent contract.

Statement of Operating Income and Rate of Return

Estimate for Year 1923

Revenues

	Present rates	Proposed rates
1. Exchange Service Revenues ..	$6,642,437.00	$8,434,253.00
2. Toll Service Revenues	2,350,000.00	2,732,358.00
3. Miscl. Operating Revenues ..	308,004.00	308,004.00
4. Total Tel. Oper. Revenue.....	$9,300,441.00	$11,474,615.00

Expenses

	Present rates	Proposed rates
5. Ordinary Repairs	$1,514,153.00	$1,514,153.00
6. Station Removals & Changes	267,385.00	267,385.00
7. Depreciation	1,070,937.00	1,070,937.00
8. Traffic Expense	2,642,731.00	2,642,731.00
9. Commercial Expense	865,011.00	865,011.00
10. General & Miscl. Expense	234,659.00	234,659.00
11. Rents	79,950.00	79,950.00
[fol. 97]		
12. Uncollectible Revenues	35,618.00	48,367.00
13. Taxes	485,617.00	658,057.00
14. Licensee Revenue—Dr.	161,653.00	161,653.00
15. Total Tel. Oper. Expense	$7,357,714.00	$7,542,903.00
16. Operating Income	$1,942,727.00	$3,931,712.00
17. Int. during Constr.—Accrued	148,122.00	148,122.00
18. Adjusted Operating Income	$2,090,849.00	$4,079,834.00
19. Rate Base	$34,789,635.00	$34,789,635.00
20. Per Cent Earned	6.01	11.73

NOTE.—The rate base above is the estimated average plant value for year 1923, plus working capital.

Discussion

Without calculating any saving by virtue of the installation of machine switching, it is seen that the return under existing rates is approximately 6 per cent.

Whatever saving can be made through the machine switching program, which we feel will soon be substantial, will serve to increase the returns.

If income statements were prepared for several years past adjusted as above, they would show a fair rate of return.

VI

Existing Rates

Finding

We find that the existing rates are just, fair, reasonable and sufficient.

[fol. 98]

VII

Proposed Rates

Finding

We find that the proposed increased rates both toll and exchange, are unjust, unfair, unreasonable, and more than sufficient.

VIII

Decrease in Rates

Finding

The evidence does not justify any reduction in rates at this time.

IX

Reparation

Finding

The contention made by the City of Seattle for reparation is not supported by the facts or the law and that portion of the complaint should be dismissed.

Petitions to Reopen Case

Some two weeks subsequent to the conclusion of all of the hearings in this case, the Seattle Chamber of Commerce, the Port of Seattle [fol. 99] and the County Commissioners of King County, Washington, filed with the Department petitions requesting the reopening of this case. The time for the suspension of the proposed increase in rates in this case expires on April 1, 1923.

In view of the conclusions we have reached the petitions to reopen the case will be denied.

Dismissal of Cause No. 4902

Cause No. 4902 entitled The Public Service Commission of Washington v. The Pacific Telephone and Telegraph Company is an old proceeding relating to facilities and service of respondent in the City of Seattle. There being no reason for continuing the same upon our docket, the matters and things therein alleged being no longer an issue the same is hereby dismissed.

Discussion

This Department has had many disagreeable tasks to perform. During the war period the rising cost of labor and materials made it necessary for us to allow increased rates to many utilities to save them from bankruptcy. In almost every decision we held out a hope [fol. 100] if not a promise that when conditions returned to normal and the period of inflation had passed rates would come down. Many utility rates have been reduced, some voluntarily and some by order of this Department, but now come the respondents when we had dared hope that our predictions might be realized and ask for a startling increase. We have sought to pursue a straightforward course doing justice to the utilities and the public regardless of pop-

ular clamor. During the war period the Postmaster General increased the rates of respondents during Federal control. These rates automatically expired and the former rates became revived by the return of the telephone lines to private ownership. Our predecessor, the Public Service Commission, permitted the refiling of the so-called Burleson rates upon one day's notice and they have been in effect ever since though the prices of materials and labor have steadily decreased. The commission was condemned by the press and public for permitting the continuance of these rates. The State of Oregon and other states refused to sanction the Burleson rates and the general telephone rate level has been higher in the State of Washington than in adjoining states until recently. We believe the commission acted wisely in continuing the so-called Burleson rates. [fol. 101] If we were convinced that the increases now sought by respondent were necessary and warranted by all facts we would permit them and submit to any censure that would follow with the patience that regulatory bodies must in the nature of things exhibit, but we are not so convinced.

Order

Wherefore it is ordered:

1. That the applications of respondents for increased rates be and the same are hereby denied. That the proposed increased rates in their entirety be and are hereby permanently suspended; that the same shall not become effective, and existing rates shall remain in effect until the further order of the Department.

2. That the annual depreciation allowance be and the same is hereby fixed at three and one-half per cent on the depreciable property of respondents for the period of two years beginning April 1, 1923.

3. That the compensation to be paid the American Telephone and Telegraph Company under said four and one-half per cent contract shall hereafter be computed on the basis of 90 cents per station per annum on the average number of stations.

[fol. 102] 4. That Cause No. 4902 entitled "The Public Service Commission of Washington v. The Pacific Telephone and Telegraph Company" be and the same is hereby dismissed.

5. That the portions of the complaints seeking reparation or reduced rates be and they are hereby dismissed.

Witness, The Department of Public Works of Washington this 31st day of March, 1923.

The Department of Public Works of Washington, By E. V. Kuykendall, Director. Frank R. Spinning, Supervisor of Transportation. Attest: J. H. Brown, Secretary.

[fol. 103] EXHIBIT E TO BILL OF COMPLAINT

Dissenting Opinion

Cases Numbers 4902 and 5344

Dissenting Opinion

For the first time in our association as members of the Department of Public Works of Washington, formerly the Public Service Commission of Washington, my associates and myself have been unable to agree upon a final order.

The majority opinion in this case contains conclusions upon certain fundamental principles of telephone rate regulation to which I cannot subscribe, and which are wholly at variance with my own conclusions.

In my opinion the record in this case fully sustains the conclusions which are expressed in the minority opinion filed herewith.

Dated at Olympia, Washington, March 31, 1923.

Hance H. Cleland, Supervisor of Public Utilities.

[fol. 104] Before the Department of Public Works of Washington, Division of Public Utilities

Nos. 4902 and 5344

THE DEPARTMENT OF PUBLIC WORKS OF WASHINGTON, ex Rel. The City of Seattle, the City of Spokane, the City of Tacoma, Washington Hotel Men's Association, Seattle Chamber of Commerce, the Port of Seattle, King County, Washington, Tacoma Chamber of Commerce, Complainants,

vs.

PACIFIC TELEPHONE AND TELEGRAPH COMPANY and HOME TELEPHONE AND TELEGRAPH COMPANY OF SPOKANE, Respondents

THE PUBLIC SERVICE COMMISSION OF WASHINGTON, Complainant,

vs.

PACIFIC TELEPHONE AND TELEGRAPH COMPANY, Respondent

FINDINGS OF FACT, ORDER, AND OPINION

[fol. 105] History of the Case

On October 29, 1921, the Department received from the King County Legislative Federation and the Women's Civic Club of Seattle a petition wherein they requested an investigation and revision of the rates of the Pacific Telephone and Telegraph Company in Seattle and King County. Thereupon the Department advised them

that a determination of the telephone rates for Seattle and King County could only be made, legally, after the filing of a formal complaint, an investigation and study of the entire system of the Pacific Telephone and Telegraph Company in the State of Washington, the holding of public hearings and the entry of written findings of fact and order, but that the Department would proceed to that end. Accordingly, after some preliminary preparation and on January 21, 1922, the Department prepared, filed and served its formal complaint challenging the reasonableness of the rates, rules, regulations and contracts of the Pacific Telephone and Telegraph Company and the Home Telephone and Telegraph Company of Spokane (the latter being an associate or subsidiary company of the Pacific Company).

The Department's Chief Engineer, H. J. Flagg, and its engineering and accounting staff, together with Mr. W. W. Hardinger, a con- [fol. 106] sulting telephone engineer with twenty-seven years' experience in the construction, operation and engineering of independent telephone properties employed, by the Department as a special engineer, were forthwith directed to proceed with and to make, in co-operation with engineers and accountants employed by the cities or other interested complainants, a thorough and complete analysis, investigation and report on all matters which could and should be considered in a final determination of the matter before the Department.

Concurrently with the filing of the complaint, a letter, with a copy of the complaint enclosed, was directed to the Mayor, Council or Commission and City Attorney in each and every city and town in the state served by the two telephone companies mentioned, calling attention to the fact that the proceeding and investigation had been instituted, and, that it being a case of unusual magnitude, it was the desire of the Department that the city authorities and their local commercial and other public and civic bodies and organizations co-operate with us in this work, rendering such aid or assistance as possible. These letters and complaints were mailed to the authorities of more than one hundred cities and towns.

[fol. 107] On March 3, 1922, the City of Seattle filed its complaint in this case with practically the same allegations as those found in the Department's complaint, except that, in addition thereto, the city prayed the issuance of a general reparation order on the ground that the existing rates were illegal. Subsequently, and on or about March 31, 1922, the City of Seattle employed Mr. T. E. Phipps, an experienced rate and valuation engineer, with whom was associated in the preparation of this case Mr. E. D. Ridley, a well-qualified public utility auditor and accountant.

On or about October 1, 1922, the City of Spokane secured the services of Messrs. Hardinger and Ridley, above mentioned. These men, together with our own engineering and accounting staff, worked continuously upon this investigation until the time of the hearing. The City of Tacoma made available for checking with our engineering staff, Messrs. Gray and Towne of its electrical department.

Mr. Ridley and Mr. L. P. Hockett, utility engineer and accountant for the Department, spent several months in San Francisco checking the books, records and accounts of the companies. A thorough check, examination and survey was made in the State of Washington, [fol. 108] particularly at Seattle, Spokane and Tacoma. In addition thereto a check and examination of the books, records and accounts of the American Telephone and Telegraph Company in New York and of various companies (including many independent telephone companies) in the reports and records of the Interstate Commerce Commission in Washington, D. C., was made.

On September 20, 1922, the respondent telephone companies filed with the Department exchange rate schedules proposing revised increased rates applicable to all exchanges of those companies in the State of Washington.

On September 24, 1922, the Department issued its order suspending the effective date of these rates for the full statutory period and directing that the company file for the consideration of the Department a toll rate schedule conforming in principle with their prewar toll rate schedule.

On September 28, 1922, the City of Spokane filed its complaint challenging the reasonableness and the legality of the proposed exchange rate schedule.

On October 5, 1922, the telephone companies filed the toll rate schedules as directed, and concurrently therewith filed with the De- [fol. 109] partment a withdrawal and cancellation of their proposed exchange rate schedules, except as applied to the cities of Seattle, Spokane and Tacoma.

Subsequently, various complaints and letters were received by the Department relative to the proposed increase, comprising some seven hundred and fifty individuals, corporations and associations. To each of these, a personal letter was addressed by the Department, enclosing a copy of the complaint and suspension order, calling attention to the investigation under way and inviting the writer of the letter or signer of the petition, to be present at hearings subsequently to be held.

On December 14, 1922, the Washington Hotel Men's Association filed its complaint protesting the change proposed to be made by the companies in rates particularly applicable to hotels.

On December 18, 1922, after due notice to all parties, the first hearing in this case was held in the City of Olympia, at which time original evidence of all parties relative to matters of valuation was submitted and some cross-examination of the witnesses had. An adjournment was taken to January 22, 1923, at Spokane, January 24th at Seattle, and January 29th at Tacoma, at which times all [fol. 110] witnesses who had testified on valuation were present for cross-examination upon the testimony given in the original hearing. Following the cross-examination of these witnesses, the telephone companies were required to submit proof in support of their proposed rate increases, and some cross-examination was had of these witnesses in each instance.

At the conclusion of the January hearings, an adjournment was again taken to February 23rd at Seattle, February 26th at Tacoma

and February 28th at Spokane. At these latter hearings, all rate witnesses who had testified at the January hearings were present for cross-examination, and upon the conclusion of that cross-examination the cities, the Washington Hotel Men's Association and others offered their proof as opposing that of the companies, and the Department's chief engineer submitted a report embracing the results of the investigation made by himself and staff and the matter was then submitted for determination.

All hearings, except the one held at Olympia, were held in the assembly room of the respective commercial clubs or chambers of commerce in each of the three cities, Seattle, Spokane and Tacoma, and in each instance the secretary of the chamber of commerce or [fol. 111] commercial club was notified of the time and place of the hearing, and request made for the use of their assembly room.

In addition to the legal notices sent to the parties of record, the Department in each instance, without being required by law so to do, some ten days prior to each hearing, addressed seven hundred and fifty personal and individual notices to all parties who had addressed us by letter or petition upon the subject of telephone rates, calling their attention to the time and place of the hearing and to the matters to be considered at that time and place. The greater part of these notices were sent to business and professional men in the City of Seattle from whom the greater number of complaints had been received; and it may be interesting to note that although some 2,300 notices of hearings and personal letters were written to these complainants in the City of Seattle, there were (other than attorneys, engineers and accountants appearing directly for parties of record) only seven persons present at the Seattle hearing who offered any statement whatever upon the subject under investigation and consideration and the only proof offered by these persons was a comparison between their monthly or yearly bills under the old [fol. 112] rates and what their bills would be under the company's proposed rates. Of the number who received at least three direct and personal notices and communications concerning the investigation and hearings, many were members of the Seattle Chamber of Commerce, namely one hundred and eight, and at least two were officers of that organization.

At the hearings in the cities of Tacoma and Spokane, some thirty-five or forty business and professional men appeared and showed the effect of the company's proposed rates in their individual cases.

At all of the hearings, each of the cities, Seattle, Tacoma and Spokane, was represented by its corporation counsel, engineers and accountants.

The investigation and hearings in this case have been the most comprehensive ever made by the Public Service Commission or the Department of Public Works of Washington, and have extended over a period of fourteen months, during the greater part of which time the Department has been assisted by the engineers and accountants for the cities, who have worked in the spirit of closest co-operation. The Department, through authority vested in it by law, has made available to all parties, all records, books, papers, documents,

[fol. 113] data and statistics found in the records of both companies, and has in all cases supplied the engineers and accountants for the cities with all data, records, etc., collected by it from all sources. In fact, the entire investigation and proceeding has been so conducted that (if we may take the liberty of quoting from an interview published in a Spokane paper) Mayor Charles A. Fleming and Corporation Counsel James M. Geraghty of Spokane stated that they were much pleased with the showing made by the engineering experts employed by the state and the city in opposition to the proposed increase in telephone rates, and that the atmosphere prevailing was something entirely different from anything encountered in former hearings; that the officials of the State Department of Public Works showed a spirit of co-operation with Spokane and Seattle, and a determination to make a thorough investigation into the telephone situation before taking action.

From a careful consideration of the record and being advised as to the law, we enter the following findings of fact (with a discussion of each).

[fol. 114] Findings of Fact

I

Rate Base

Finding

The value of the telephone properties of the Pacific Telephone and Telegraph Company in the State of Washington, including the Spokane Exchange, used and useful in public service, was, as of June 30, 1922, $32,108,853.76, which amount is fixed as the rate base as of that date.

Discussion

The respondents in this case have contended for a value (termed by them fair value) in the amount of $40,000,000. This contention is fully answered to the contrary, by our own Supreme Court in State ex rel. Spokane Gas Light Company v. Kuykendall, 119 Wash. 107.

Our discussion of the Spokane Exchange valuation has been fully covered in separate findings and order. On account of change of ownership of a portion of the property and the consolidation of two systems, the Spokane plant was of necessity treated as an original valuation proceeding.

[fol. 115] As to the balance of the Pacific Company's plant in Washington, it is merely the bringing up to date of a valuation made in 1914 by the Public Service Commission, adding thereto the net additions and betterments from December 31, 1914, to June 30, 1922.

In these findings and this order, all of the property of the Pacific Telephone and Telegraph Company and the Home Telephone and Telegraph Company of Spokane will be treated as one system and the property in Spokane will be treated as an exchange of the Pacific

Telephone and Telegraph "system." Technically, the Home Telephone and Telegraph Company of Spokane is a separate entity, but it is common knowledge that it is maintained as a separate entity for franchise purposes only. All of the stock of the Home Company, except a few directors' qualifying shares, is owned by the Pacific Company and for all practical purposes the Spokane plant is in fact an exchange or part of the Pacific system just as are Seattle and Tacoma; therefore, the valuation made of the Spokane Exchange is treated as an integral part of a state-wide system and the rates to be fixed herein will bear the same relation to the system as do the rates for Seattle and Tacoma.

[fol. 116] Due consideration has been given to the items "Construction Work in Progress" and "Due from Subscribers and Agents," and we are of the opinion that these two items should properly be included in the rate base and in the amount above set out they have been so included.

The Public Service Commission of Washington, in its order in Causes 1810-1825, placing a value for rate making purposes upon the properties of the Pacific Telephone and Telegraph Company in the State of Washington, did not allow as an element of value the item of "Due from Subscribers and Agents." Investigation in the present case disclosed the fact that the amounts shown in the applicants' exhibits and in the report of the Department's engineer as "Due from Subscribers and Agents" represent balances due from subscribers and agents for services rendered previous to the dates as of which the balances were taken and do not contain any amounts representing advance billing. Such accounts receivable are a recognized element of value for rate making purposes and it has always been the practice of this Department to treat them as such. There appears to be no reason for it to depart from its practice in this case.

[fol. 117] Some contention was made during the course of the hearing relative to the exclusion of certain properties from the rate base, particularly in Seattle, where a large development has been made by the Pacific Company during the past few years. This property is covered by the account "Construction Work in Progress" which, being a balance sheet account is not ordinarily grouped with the fixed capital accounts in arriving at a rate base. It is our opinion enlarged on in the following discussion, that "Construction Work in Progress" should be included in the rate base.

The Department's engineers, in the first volume of their report, dealing with the rate base, contended that "Construction Work in Progress" should not be included in the rate base, giving as a reason the fact that a utility is permitted to capitalize interest upon funds employed in construction work and that to include "Construction Work in Progress" in the rate base would make possible a double earning during the construction period upon the same investment. In the second volume of their report, the Department's engineers modified their position to the point of including "Construction Work in Progress" in the rate base but, as a compensating factor, includ-

[fol. 118] ing in operating income the interest accrued during the construction period. The reasons for their change of position, as stated on pages 5 and 6 of volume two of their report, are as follows:

"A review of the evidence received at the first hearing in the present case, concerning the proper treatment of construction work in progress, has led to the conclusion that the extreme views as to this factor have been presented by the Company on one hand and by the Department's engineers on the other. Construction work in progress was included in the rate base by the company, and excluded from the rate base by the Department's engineers, without consideration having been given by either to all of the facts which it is believed are pertinent to a consideration of the ultimate effect upon the rate base and upon operating income. Under the method proposed by the Company, no consideration is given to the interest earnings of funds employed in construction work in progress; while, under the method first proposed by the Department's engineers, consideration was not given to the fact that, if the Company were not permitted to earn on funds employed in construction work, it must be permitted to capitalize interest during the entire construction period between the initiation of the work and the date of its actually coming into service. The effect of this, particularly in the case of Seattle, where an extremely large construction program is now being carried on, would be to pyramid the rate base and add to the burden of the rate payer during the entire future life of the plant."

[fol. 119] Funds employed in construction work are as fully devoted to the public service as are funds invested in completed plant, in materials and supplies, or in the case required to meet current expenditures. The necessity of an allowance for cash, materials and supplies, and other items of working capital, is recognized by all regulatory bodies and there is no question as to the propriety of permitting an earning upon these items in their final form when they appear as additions to the fixed capital accounts. Since "construction work in progress" represents nothing more nor less than cash and materials and supplies in their transitional stage between working capital and completed plant, it seems as clearly entitled to inclusion in the rate base as it was as working capital or as it will be as completed plant.

There is, however, a further factor in this consideration, which is "Interest during Construction." Certainly, funds employed in construction work are entitled to a fair earning. If the funds be borrowed, the creditor is receiving an earning and the utility is suffering no loss since it is permitted to capitalize the interest it pays out. This capitalization creates a value upon which the utility is permitted to earn and which presumably can be sold if the plant [fol. 120] changes owners. If the utility capitalizes interest on its own funds there is an actual increase in its surplus. These facts must be recognized when considering the propriety of including "Construction Work in Progress" in the rate base.

The rate of return from operations seldom coincides with the rate at which interest during construction is capitalized; furthermore, the applicant does not capitalize interest upon routine construction work requiring less than one month for completion. Therefore, the most equitable method of treatment appears to be to include "Construction Work in Progress" in the rate base and to include in operating in-

come the interest accretions which act as an automatic governor to compensate the rate payer, if the rate of capitalization of interest be more, and the company if it be less, than the rate of return from operations.

II

Rate of Return—(Earnings)

Finding

That under the rates applicable during the past seven years the [fol. 121] Pacific Telephone and Telegraph Company in the State of Washington, after paying operating expenses, taxes, licensee revenue debtor, and setting aside depreciation, has shown an annual rate of return as follows:

1915	1916	1917	1918	1919	1920	1921	1-1-to 6-30-22	
1.84%	3.40%	3.31%	3.13%	4.67%	4.09%	3.52%	3.35%	(annual)

and that said rate of return during the entire period has been unfair, unjust unreasonable and less than sufficient.

That the estimated rate of return of the Pacific Telephone and Telegraph Company for the State of Washington for the year 1923 under the rates proposed by the companies, computed upon the rate base herein found, will be 9.04%, which would be unjust, unfair, unreasonable and more than sufficient.

That under the rates fixed and allowed by this order, the rate of return will be 7.37% upon the rate base herein established.

Discussion

It has been a consistent policy of the present members of this Department in all rate cases, where satisfactory service was shown to have been given, to allow a rate of return approximating 8% upon [fol. 122] the value or rate base as fixed and determined by the Department. It is admitted by counsel for the City of Seattle that the service is satisfactory. The only direct testimony upon this subject was that of a witness for the City of Seattle, who stated that 8% was a fair rate of return upon money invested in telephone plant. As testified on cross-examination by certain witnesses (telephone users) for the City of Tacoma, a rate of return ranging from 6% to 10% was by them deemed reasonable, should they invest their money, depending upon the nature or class of business in which the investment was made.

For convenience of study, and to make the manner and method of computation clear, there is here inserted an income statement for the years 1920, 1921 and the first six months of 1922. We will define and discuss each of the items therein. The numbers refer to the corresponding account title on the statement.

[fol. 123] Statement of Operating Income and Rate of Return, Pacific System, State of Washington

	1920	1921	January 1 to June 30, 1922
1. Telephone Operating Revenues	$7,754,052.82	$8,114,245.13	$4,165,420.49
Deductions from Revenues:			
2. Telephone Operating Expenses (excl. Dep.)	4,716,709.05	5,043,458.88	2,573,994.76
3. Taxes Assignable to Operations	600,045.53	543,449.27	262,310.90
4. Uncollectible Operating Revenues	17,321.26	29,028.68	17,061.75
5. Depreciation (on Depreciable Property)	1,177,558.87	1,321,585.78	727,295.13
6. Licensee Revenue—Dr.	327,106.58	342,658.03	173,421.04
7. Total Deductions from Revenue	$6,838,741.29	$7,280,180.64	$3,754,083.58
8. Operating Income	915,311.53	834,064.49	411,336.91
9. Interest during Construction	17,959.48	90,491.52	97,965.71
10. Adjusted Operating Income	$933,271.01	$924,556.01	$509,302.62
11. Rate Base (Incl. C. I. P.)	$22,821,159.54	$26,232,691.37	$30,425,113.89
12. Rate of Return	4.09%	3.52%	3.35%

NOTE.—Line 11—Amounts are average for the period hence do not agree with rate base finding since the latter is of a specific date, namely June 30, 1922.

[fol. 124] 1. Telephone Operating Revenues.—This the total annual revenue arising from the conduct of the telephone business. From this amount, and before any balance is available for the payment of dividends or interest on bonds or other obligations, there is properly deductible Items 2, 3, 4, 5 and 6.

2. Telephone Operating Expenses (Excluding Depreciation).—This item includes salaries, wages, materials, and all other expenses of operating a telephone plant, except those covered by Items 3, 4, 5 and 6. No interest of any kind is included in any of the items deductible from Telephone Operating Revenues.

3. Taxes Assignable to Operations.—This item includes all federal, state, county and municipal taxes paid by the telephone company.

The department has heretofore consistently refused the allowance of income tax in all utility matters coming before it. However, in view of recent decisions of the Supreme Court of the United States, federal courts and the Interstate Commerce Commission, we are constrained to reverse our former holding and practice in this regard, and to follow the law as definitely settled by the courts, which is, that Federal income tax is properly deductible from operating reve-
[fol. 125] nues.

Consolidated Gas Company of New York vs. Newton, 267, Federal 231.

Newton vs. Consolidated Gas Company, 42 Sup. Ct. 264.

Galveston Electric Company vs. Galveston, 66 Law Ed. 382.

Reduced Rates 1922, — I. C. C. 683.

4. Uncollectible Operating Revenue.—This item includes the charges for telephone and other services, which, after a reasonably diligent effort to collect, have proved impracticable of collection. Only uncollectible bills for amounts which have been treated as operating revenues (see above) are included in this account.

5. Depreciation (on Depreciable Property).—Under the system of accounts prescribed by the Interstate Commerce Commission and adopted by the Department of Public Works, telephone companies operating in the State of Washington are required to establish and include in their yearly and monthly operating expenses, a charge sufficient to cover depreciation of plant due to wear and tear, obsolescence, inadequacy, public demand, extraordinary accidents, catastrophes, etc. These charges are carried to a depreciation reserve, and [fol. 126] the costs of all replacements of plant units, instead of being included in the ordinary repairs accounts, are charged against the depreciation reserve. Owing to the fact that the annual depreciation charge must be estimated, there naturally have been some slight differences of opinion as to just how this annual charge should be estimated, and just about what percentage of plant cost it should be. It is apparent that while the percentage necessary in the case of one exchange may vary to some extent from the percentage necessary in the case of another exchange, due to a possible difference in the char-

acter of the physical property contained in each; yet at the same time, there should be no material differences in the annual charges necessary for large telephone systems, involving a number of exchanges, large and small, in different portions of a state, where climatic and other conditions are not the same.

The question here involved and to be determined, is as to what reasonable annual percentage should be allowed for depreciation of respondent's plant in this state.

In computing the rate of return, in all statements found herein, annual depreciation has been allowed at a percentage of 5.25%.

[fol. 127] The subject of depreciation was covered fully by witnesses for the companies, for the Department and for the City of Seattle, and the percentages recommended by each were as follows:

Companies	5.75%	
City of Seattle	5.88%	(exchange plant only).
Department's Engrs	5.25%	

In Case No. 4747, Public Service Commission of Washington et al. vs. Pacific Telephone and Telegraph Company, decided February 13, 1919, the Public Service Commission of this state approved depreciation for the company at an annual percentage of 5.72%, and 5.72% was the percentage allowed by agreement with the Federal Government during the period of Federal control of the telephone systems of the United States.

In addition to our finding of depreciation at 5.72% in Cause No. 4747, depreciation percentages were allowed by us in the following cases:

Cause No. 5040, City of Port Angeles vs. Angeles Telephone and Telegraph Company, Nov. 17, 1920, 5.72%.

Cause No. 5076, Camas Commercial Club vs. Camas Telephone and Telegraph Company, February 1, 1921, depreciation allowed 6%.

[fol. 128] Cause No. 5127, Commission vs. Oregon-Washington Telephone Company, January 4, 1921, rate not stated in order, but 5.72% found in working papers.

There is included herein a tabulation of decisions on depreciation by commissions and courts. There are 112 commission decisions and eight court decisions.

It is found from an analysis of these decisions that the rates for depreciation fixed by the regulatory bodies generally were considered to apply to the property as a whole, either to the total actual cost or the total reproduction cost, or to the total value. The percentages allowed range from a minimum of 2.29% to a maximum of 10%. In twelve of the cases, the allowance was below 5%; in fifty cases the percentage was from 5% to 6%; in forty cases the percentage was from 6% to 7%, while in ten cases the allowance in excess of 7%. The average allowance was 5.972%. It will also be noted that in ninety of the 112 cases reported, the depreciation allowance fell between 5% and 7%.

[fol. 129] Tabulation of Cases on Depreciation

Jurisdiction	Citation		Rate fixed
Alabama	PUR1919B	791	5.50
Arizona	PUR1920B	411	6.00
Arkansas	PUR1921B	516	6.40
California	PUR1915F	1014	5.50
California	PUR1922A	853	5.50
California	PUR1922C	97	3.28
Colorado	PUR1917B	198	5.65
Georgia	PUR1921C	833	5.11
Hawaii	PUR1921B	209	6.80
Idaho	PUR1916C	438	6.07
Idaho	PUR1920E	321	6.00
Illinois	PUR1915D	646	5.00
Illinois	PUR1916B	318	7.00
Illinois	PUR1916D	781	6.58
Illinois	PUR1917A	658	6.00
Illinois	PUR1917B	368	6.00
Illinois	PUR1918B	172	5.50
Illinois	PUR1918E	74	5.50
Illinois	PUR1915E	23	5.50
Indiana	PUR1917F	209	4.50
Indiana	PUR1918C	489	5.00
Indiana	PUR1918E	859	5.00
Indiana	PUR1918E	669	5.00
Indiana	PUR1920C	209	5.00
Indiana	PUR1920C	854	5.00
Indiana	PUR1919E	504	5.00
Indiana	PUR1920A	422	5.00
Indiana	PUR1920B	813	5.00
Indiana	PUR1920D	83	5.00
Indiana	PUR1922E	46	5.00
Kansas	PUR1915B	507	6.00
Kansas	PUR1918C	55	6.50

[fol. 130]

Kansas	PUR1918C	777	5.72
Kansas	PUR1922A	321	4.36
Louisiana	PUR1922E	86	5.00
Maine	PUR1920C	386	3.32
Maryland	PUR1916C	925	6.25
Michigan	PUR1921C	545	5.00
Michigan	PUR1921E	308	5.00
Michigan	PUR1923A	30	4.00
Minnesota	PUR1916C	141	8.94
Minnesota	PUR1921C	733	4.50
Missouri	PUR1915C	366	6.50
Missouri	PUR1920E	59	7.00
Missouri	PUR1919A	659	5.50

Jurisdiction	Citation		Rate fixed
Missouri	PUR1922A	773	6.00
Nebraska	PUR1915E	57	6.00
Nebraska	PUR1919A	35	6.00
New Hampshire	PUR1918F	592	7.00
New York	PUR1916B	940	5.80
New York	PUR1920D	529	5.66
North Dakota	PUR1921E	567	6.00
North Dakota	PUR1922E	602	5.00
Ohio	PUR1922A	155	5.00
Oregon	PUR1915F	290	2.39
Oregon	PUR1919D	345	3.55
South Dakota	PUR1915A	562	7.00
South Dakota	PUR1915B	223	7.00
South Dakota	PUR1915E	516	6.00
South Dakota	PUR1916A	364	7.00
South Dakota	PUR1916D	603	6.00
South Dakota	PUR1919B	734	7.00
South Dakota	PUR1922D	769	4.00
Utah	PUR1919C	566	6.50
Virginia	PUR1922A	756	5.50
West Virginia	PUR1921B	97	6.10
Wisconsin	2WRCR	105	3.67
Wisconsin	2WRCR	358	8.00
Wisconsin	2WRCR	427	10.00
Wisconsin	2WRCR	546	7.00
Wisconsin	3WRCR	117	8.00
Wisconsin	3WRCR	412	8.00

[fol. 131]

Wisconsin	3WRCR	452	8.00
Wisconsin	4WRCR	1	8.00
Wisconsin	4WRCR	259	7.50
Wisconsin	4WRCR	370	7.00
Wisconsin	4WRCR	407	7.00
Wisconsin	4WRCR	414	7.00
Wisconsin	6WRCR	211	8.00
Wisconsin	6WRCR	419	6.50
Wisconsin	6WRCR	549	6.50
Wisconsin	6WRCR	573	6.50
Wisconsin	7WRCR	428	7.00
Wisconsin	7WRCR	608	7.00
Wisconsin	8WRCR	92	6.50
Wisconsin	9WRCR	383	6.50
Wisconsin	9WRCR	489	6.07
Wisconsin	11WRCR	180	6.50
Wisconsin	11WRCR	402	7.00
Wisconsin	11WRCR	499	6.50
Wisconsin	11WRCR	666	6.52
Wisconsin	13WRCR	540	6.50

Jurisdiction	Citation		Rate fixed
Wisconsin	14WRCR	157	7.00
Wisconsin	14WRCR	594	6.50
Wisconsin	15WRCR	182	9.00
Wisconsin	15WRCR	552	7.00
Wisconsin	16WRCR	402	6.67
Wisconsin	16WRCR	473	6.50
Wisconsin	16WRCR	758	7.00
Wisconsin	PUR1916C	1020	5.00
Wisconsin	PUR1916D	631	6.50
Wisconsin	PUR1917A	439	5.17
Wisconsin	PUR1917C	507	5.50
Wisconsin	PUR1917E	540	6.00
Wisconsin	PUR1919D	909	6.00
Wisconsin	PUR1920C	1019	6.00
Wisconsin	PUR1921E	171	4.58
Wisconsin	PUR1922A	164	6.00
Wisconsin	PUR1922B	91	5.00
Wisconsin	PUR1919F	92	5.21
Wisconsin	PUR1922B	553	3.50
Wisconsin	PUR1922D	368	5.00

[fol. 132] The following court decision also discuss the matter at some length:

Pioneer Telephone Company, Oklahoma, 118 Pac. 363.
Railroad Company v. Richmond, 96 U. S. 521.
Munn v. Illinois, 94 U. S. 133.
Cumberland Telephone and Telegraph Company v. Louisville 187 Federal, 637.
Cumberland Telephone and Telegraph Company v. Memphis, 183 Federal, 875.
Cumberland Telephone and Telegraph Company v. Railroad Commission, 156 Federal 823.
Gome Telephone and Telegraph Company v. Carthage, 139 S. W. 547.
Bell Telephone Company v. Houston, Texas, P. U. R. 192D, 793.

6. Licensee Revenue Debtor (4½% Contract).—This is a contract between the American Telephone and Telegraph Company and the Pacific Telephone and Telegraph Company and the Home Telephone and Telegraph Company of Spokane whereby the Pacific Company and the Home Company pay to the American Company four and one-half per cent of the gross revenue from four principal classes of service, namely; 1st, Subscribers' Station Revenue: 2nd, [fol. 133] Public Pay Station Revenues; 3rd, Private Exchange Line Revenues, and 4th, Message Toll Revenues; less Uncollectible Operating Revenues. The total amount paid by the Pacific Company and the Home Company under this contract in the year 1921 was $342,658.03. The consideration for this payment is that the

American Telephone and Telegraph Company supplies at all times to the Pacific Company and the Home Company certain instrumentalities, services, etc. These instrumentalities and services may be briefly designated as follows:

1. Telephone transmitters, receivers and induction coils.

2. Rights under all patents owned or controlled by the American Company covering use of telephonic devices, apparatus, methods and systems.

3. The right to use all standarized, new and improved apparatus and methods developed through research and experimental work by the American Company.

4. A guarantee of freedom from royalties, damages and expenses on account of patents arising out of recommended use of apparatus, methods and systems.

[fol. 134] 5. An organization to prosecute continuously the fundamental work of research and investigation to the end that safety, economy and efficiency in the business will be promoted

6. Advice and assistance in general engineering, plant, traffic, operating, commercial, accounting, patent, legal, administrative and other methods involved in the efficient, economical and successful conduct of the telephone business.

7. Advice and assistance in the financing necessary to develop and enlarge the plants of the Pacific and the Home Companies.

8. Assistance, co-operation and support in promoting the health and welfare of the employes, including the plan for employes' pensions, disability benefits and death benefits with a provision for guaranteeing the integrity of the funds provided by the Pacific and Home companies for this purpose.

Instrument Service (Receivers, Transmitters and Induction Coils).—It is conceded in this case, by all parties, that, should the only service performed by the American Company be the so-called instrument service, the annual charges therefore which might prop-
[fol. 135] erly be allowed as a deduction from revenue would be in excess of 53 per cent of the total amount paid by respondents to the American Company under the four and one-half per cent contract. This particular item is referred to in the record and the briefs as "instrument service."

Other Services.—In our opinion, the cost to the Pacific Company and the Home Company of the other items of service, etc., rendered by the American Company to them would greatly exceed the other 47 per cent of the amount paid under the contract. It is our opinion that the value of the services rendered by the American Company exceeds the amount paid therefor, and we, accordingly, allow the full amount charged therefor as a deduction from revenue. However, it is also our opinion that the method used in computing

the compensation to be paid for these services is not correct in principle. As it is now a revision of rates resulting in a change in revenue brings about a corresponding change in the amount in dollars to be paid under the contract. In other words, having found that four and one-half per cent of certain gross revenues under existing rates is just and equitable, it can not logically be said that four and one-half per cent of the revenues derived from increased rates is also [fol. 136] fair without some showing of additional facilities furnished or services rendered by the American Company. We believe that a method of computing the payments under the contract which will not be influenced proportionately by changes in operating revenues can be found. Such a method would be more equitable and less objectionable than the present flat percentage method. We are, therefore, adopting a method of determining the amount of compensation which should be paid, which we believe will accomplish that end and at the same time be fair to the companies and to their patrons. Naturally, as an exchange or a plant increases there will be a greater demand for instrumentalities and service and this demand will grow as the size and importance of the exchange increases or grows. Therefore, in our opinion, the only fair and logical method of fixing and standardizing this compensation is upon a per station basis. We believe that the present compensation in dollars is reasonable for the service rendered and should be approved. Dividing the contract payment for 1922 by the average number of exchange stations served by respondents a figure of $2.15 per station is derived. Therefore in this case the amount of compensation for [fol. 137] services performed under this contract that is approved as a deduction from revenue is computed at the rate of $2.15 per exchange station. The total approved allowance for this compensation is not changed by the increase in rates allowed.

The four and one-half per cent contract has been the subject of investigation by practically every public service commission or similar regulatory body in the United States, and it is of interest to note that the full four and one-half per cent has been allowed by twenty-one commissions, and that the amount has been reduced by only seven commissions. Ten state commissions have not only allowed the full amount under the contract but have approved the percentage method of computing compensation. Eleven states, although they have allowed the full amount, have not approved the percentage method.

The contract has been the subject of exhaustive investigation by the Public Service Commission of this state as far back as the year 1912 and we have in our files as a result of the first investigation two volumes of some 540 pages of testimony and exhibits relating thereto. At that time two members of the Public Service Commission of this state held an inquiry in New York City, the home office of the Amer- [fol. 138] ican Telephone and Telegraph Company, and inquired into every conceivable angle of the subject.

This matter was before the Public Service Commission of this state in our Cause No. 4747 Public Service Commission, et al. v. Pacific Telephone and Telegraph Company and the Postmaster

General, and in the decision (1919 annual report, page 168) we find the following:

"At a large expense this Commission several years ago made a thorough investigation of this contract, but at that time entered no order concerning it. We have reached the conclusion that it is a beneficial arrangement conducive to telephonic development and service. A number of other state commissions have analyzed and discussed it and in the main have supported it."

And again in that same order, we find the following:

"Between the Bell System and its constituent companies there has for many years existed what is known as the four and one-half per cent (4½%) contract. This contract is recognized and made a part of the agreement between the Bell system and the constituent companies joining and the Postmaster General."

The Supreme Court of the United States, in City of Houston v. Southwestern Bell Telephone Company and Southwestern Bell Tele- [fol. 139] phone Co. v. City of Houston et al., U. S. Supreme Court Advance Opinions 1921-22, No. 16, July 1, 1922, p. 539, stated:

"The American Telephone and Telegraph Company owns substantially all of the stock of the Company and a large majority of the stock of the Western Electric Company. From the American Telephone and Telegraph Company the Company leases its instruments and secures their maintenance and renewals, and from the Western Electric Company it obtains the greater part of its equipment and supplies used in operating its local exchange. It is contended by the City that no fair disclosure was made of the profits made by the furnishing companies on the instruments and on the material and supplies so furnished, and that, for this unique reason, the Company should not be heard in a court of equity and the case should be dismissed. It is true that the Company did not introduce proof to show what the profits of the two companies were, either upon the business done with it or on their entire business; but it did introduce much evidence tending to show that the charge made and allowed for the services rendered and supplies furnished by them was reasonable and less than the same could be obtained for from other sources. Under the circumstances disclosed in the evidence, the fact that the American Telephone and Telegraph Company controlled the Company and the Western Electric Company by stock ownership is not important beyond requiring close scrutiny of their dealings to prevent imposition upon the community served by the [fol. 140] company, but the Court recognized and applied this rule."

Although there are many Commission decisions, whereby the four and one-half per cent contract is discussed in detail, and approved, as above indicated, we think it necessary to quote from only one of these decisions, as bearing upon the reasonableness of the compensation paid for the services rendered.

We quote from a decision of the Commission of the State of Alabama, City of Birmingham v. Southern Bell Telephone Co., 84 Commission Leaflet No. 1 (1918):

"The development of the general staff of the American Telephone and Telegraph Company has so grown, and its functions so broadened, that at the present time it renders available to the respondent company"—(the respondent company was in the position of the Pacific and Home Companies here)—"the entire telephone experience of the world, with everything that is of general value in the telephone art and sciences, whether covered by patents or not. It is plain to the Commission that it is absolutely necessary for the respondent company to keep in touch at all times with all improvements in the telephone arts and sciences, and whether it does this through contract with the American Telephone and Telegraph Company, or through its own efforts, the Commission is not concerned.
[fol. 141] "The Commission is naturally interested as to whether the respondent company could get this service cheaper in some other way, either by furnishing it itself, or by some other source. It is obvious that much of this service could not be obtained any other way except in a central organization. It would be impossible to render to every one all of the patent inventions which so largely make up the improvements in the arts of telephony. If each telephone company attempted to organize a general staff, it appears to the Commission that each company would absolutely retain its own inventions, and no company could acquire the right to use everything that will aid in the most efficient and economical service. Moreover, the expense of such organization, it occurs to the Commission, would be prohibitive, unless it were distributed over a large system.

"The fact, if it be a fact, that this arrangement or contract is also a desirable contract from the standpoint of the American Telephone and Telegraph Company does not, to the mind of this Commission, affect the situation whatsoever. This is ordinarily true, of course, of all such contracts. If, for instance, the respondent company rented its instruments from some one else, the person who rented them to the company would expect a profit, and would certainly be entitled to one. Sound business transactions benefit all parties to them."

7. Total Deductions from Revenue.—This is the total of items 2, 3, 4, 5 and 6 and comprises all expenditures reasonably deductible [fol. 142] from revenue in computing a rate of return.

8. Operating Income.—This is the residue of operating revenue remaining after paying all expenses of operation except interest and dividends. It is obtained by subtracting item 7, from item 1.

9. Interest During Construction.—This item comprises the accruals of interest on moneys expended on construction work in progress and is computed on the monthly balances in that account. It is added to item 8 as an offsetting factor for the inclusion of Construction Work in Progress in the rate base.

10. Adjusted Operating Income.—This item is merely the sum of items 8 and 9.

11. Rate Base.—This item is the amount in dollars upon which the utility is entitled to earn a reasonable return. It is derived from the rate base figure in Finding I. The amounts stated herein are average figures for the period and do not represent the rate base as of any specific date.

12. Rate of Return.—This item is the percentage obtained by dividing the Adjusted Operating income by the Rate Base. It is analogous to an interest rate and represents the percentage earning or interest on the rate base.

[fol. 143]

III

Hotel Rates

Finding

The rates proposed by the respondent applicable to hotels are in our opinion unjust, unfair and unreasonable for the service rendered, and the same will be disallowed. Just, fair, reasonable and sufficient rates for this service are included in the rate schedule herein set forth.

IV

Toll Message Rates

Finding

The charges for toll messages now made by the respondent are unjust, unfair, unreasonable, and less than sufficient. The respondent Pacific Company should therefore file a revised toll rate schedule in accordance with the following specifications.

1. The classes of service at present being given to be continued.

2. The distance or base rates on each intrastate route to remain unchanged.

3. In all other respects the revised toll rate schedule, rules and [fol. 144] regulations, shall be similar to the present tariff now in effect with the following exceptions:

a. The initial period for all station-to-station intrastate messages shall be three minutes, and the charge for each additional minute or fraction thereof shall be one-third of the initial rate.

b. The initial period for all person-to-person, messenger and appointment intrastate messages shall be two minutes and the charge for each additional minute or fraction thereof shall be one-half of the initial rate.

c. If the initial rate for station-to-station messages is not evenly divisible by three, the charge for each additional minute or fraction thereof for this classification shall be calculated to the next lower multiple of five cents.

d. If the initial rate for person-to-person, messenger or appointment calls is not evenly divisible by two, the charge for each additional minute or fraction thereof for these classifications shall be calculated to the next lower multiple of five cents.

Discussion

As stated in our order suspending the company's proposed rates [fol. 145] we have reached certain conclusions which we consider more or less fundamental in connection with the rate structure of telephone utilities.

a. From facts thus far developed the Department is inclined to the view that property used and useful devoted to the service of the public should be considered as a whole and the rate schedule so designed as to produce a reasonable return on a reasonable value of the property as a whole, provided that no form of tariff or system of grouping, or segregation, should be adopted that will unduly favor any community or class of communities, to the disadvantage of others.

b. That the toll or long distance rate schedules should be in keeping with the competitive conditions to be met and with due regard to the value of the service rendered, to the end that the local exchange rate schedules, which intimately touch the lives of all of the people of this state and which are a domestic necessity, should be as low as possible.

The changes above directed in the toll rate schedule will accomplish the result contemplated by the Department in its suspension order.

[fol. 146]

V

Exchange Rates

Finding

The existing exchange rates and charges of the respondents are unjust, unfair, unreasonable and less than sufficient. The exchange rates proposed by the respondents in their respective tariffs W. D. P. W. No. 3, are unjust, unfair, unreasonable and more than sufficient. The exchange rates as set out on succeeding pages herein are just, fair, reasonable and sufficient.

That the respondents should file with this Department tariffs containing the schedule of rates herein found to be just, fair, reasonable and sufficient, but containing in all other respects the same rates, rules and regulations as are contained in their respective exchange

rate schedules, W. D. P. W. No. 3, now on file with the Department and under suspension.

That had said rates been in effect during the entire calendar year of 1923, the Pacific system in the State of Washington would have realized a rate of return of 7.34 per cent, as computed on the estimated rate base for that year of $34,789,635.00, which rate of return is just, fair, reasonable and not more than sufficient.

[fol. 147] Rates, Seattle Exchange

Business—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$10.50	$10.75
Extension (with or without bell)	1.00	1.25
Suburban Service—Ten-party Line	3.50	3.75

Business—Measured Service

	Rate per month		Free exchange messages per month	Each additional exchange message
	Wall set	Desk set		
Individual Line	$6.50	$6.75	130	$.05
Extension (with or without bell)	.75	1.00	..	...

Semi-public Coin Box Service

	Rate per day		Each exchange message
	Wall set	Desk set	
Individual Line	$.20	$*	$.05

*25c. per month additional.

	Wall set	Desk set
Extension (with or without bell) per month	$1.00	$1.25

Residence—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$4.25	$4.50
Two-party Line	3.50	3.75
Four-party Line	2.75	3.00
Extension (with or without bell)	.75	1.00
Suburban—Ten-party Service	3.00	3.25

[fol. 148] Rates, Tacoma Exchange

Business—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$8.00	$8.25
Extension (with or without bell)	1.00	1.25
Suburban Service—Ten-party Line	3.50	3.75

Business—Measured Service

	Rate per month		Free exchange messages per month	Each additional exchange message
	Wall set	Desk set		
Individual Line	$5.50	$5.75	110	$.05
Extension (with or without bell)	.75	1.00	..	...

Semi-public Coin Box Service

	Rate per day		Each exchange message
	Wall set	Desk set	
Individual Line	$.20	$*	$.05

*25c. per month additional.

	Wall set	Desk set
Extension (with or without bell) per month	$1.00	$1.25

Residence—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$3.50	$3.75
Two-party Line	2.75	3.00
Four-party Line	2.25	2.50
Extension (with or without bell)	.75	1.00
Suburban—Ten-party Service	3.00	3.25

[fol. 149] Rates, Spokane Exchange

Business—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$8.50	$8.75
Extension (with or without bell)	1.00	1.25
Suburban Service—Ten-party Line	3.50	3.75

Business—Measured Service

	Rate per month		Free exchange messages per month	Each additional exchange message
	Wall set	Desk set		
Individual Line	$5.50	$5.75	110	$.05
Extension (with or without bell)	.75	1.00	..	...

Semi-public Coin Box Service

	Rate per day		Each exchange message
	Wall set	Desk set	
Individual Line	$.20	$*	$.05

*25c. per month additional.

	Wall set	Desk set
Extension (with or without bell) per month	$1.00	$1.25

Residence—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$3.75	$4.00
Two-party Line	3.00	3.25
Four-party Line	2.50	2.75
Extension (with or without bell)	.75	1.00
Suburban—Ten-party Line	3.00	3.25

[fol. 150] Hotel Private Branch Exchange Service Rates, Seattle, Tacoma, and Spokane Exchanges, Unlimited Service

Switchboard or Order Board with Battery Power Ringing Circuit, Position Dial, Switchboard Telephone, Each Position

	Rate per month
Cordless Type	$3.00
Non-Multiple Cord Type:	
10 lines or less in use	5.00
11- 30 lines in use	6.00
31- 60 lines in use	7.00
61-100 lines in use	8.00
101-150 lines in use	9.00
151-200 lines in use	10.00
201-260 lines in use	11.00
261-320 lines in use	13.00
Multiple Cord Type:	
Each position with not to exceed one multiple jack per line	15.00
Each additional strip of ten multiple jacks or portion thereof	.30

Stations on Premises in Which Switchboard or Order Board is Located and Connected with That Board

	Seattle	Tacoma	Spokane
Each station not in guest room—			
Without dial—Wall Set.....	$1.25	$0.95	$1.00
Desk Set.....	1.50	1.20	1.25
Each station not in guest room—			
With dial—Wall Set.....	1.50	1.15	1.20
Desk Set.....	1.75	1.40	1.45
Each station in guest room—			
Without dial—Wall Set.....	.75	.55	.60
Desk Set.....	1.00	.80	.85
Each station in guest room—			
With dial—Wall Set.....	1.00	.75	.80
Desk Set.....	1.25	1.00	1.05

Stations outside premises in which switchboard or order board is located—See Mileage Rates, Section 3.

Trunk Lines to central office from switchboards or order boards.
Each bothway trunk line—Individual Line business rate plus $3.00
Each incoming trunk line—Individual Line business rate.

Tie lines from switchboard or order board or between separate switchboards—See Mileage Rates, Section 3.

Applications are not accepted for less than two (2) trunk lines and four (4) stations, excluding switchboard telephones. If the switchboard is to be installed outside the primary rate area—See Mileage Rates, Section 3.

[fol. 151] Statement of Operating Income and Rate of Return Estimate for the Year 1923

	Present rates	Company rates	Department allowed rates
1. Operating Revenues	$9,300,441.00	$11,474,615.00	$10,751,350.00
Deductions from Revenues:			
2. Operating Expenses (excl. Depreciation)	5,603,889.00	5,603,889.00	5,603,889.00
3. Taxes Assignable to Operations	581,000.00	658,057.00	637,413.00
4. Uncollectible Revenues	35,618.00	48,367.00	44,445.00
5. Depreciation (on Depreciable Property)	1,674,024.00	1,674,024.00	1,674,024.00
6. Licensee Revenue—Dr.	386,170.00	386,170.00	386,170.00
7. Total Deductions from Revenues	$8,280,701.00	$8,370,507.00	$8,345,941.00
8. Operating Income	$1,019,740.00	$3,104,108.00	$2,405,409.00
9. Interest during Construction	148,122.00	148,122.00	148,122.00
10. Adjusted Operating Income	$1,167,862.00	$3,252,230.00	$2,553,531.00
11. Rate Base (incl. Const. Work in Progress)	$34,789,635.00	$34,789,635.00	$34,789,635.00
12. Rate of Return	3.36%	9.35%	7.34%

[fol. 152] Farmer Line Rates

Finding No. VI

We find that irregularities and discrimination exist in the rates now being charged by respondent for farmer line service. In order to equalize and standarize these rates the respondent should file a supplement to its tariff effective on and after April 1, 1923, carrying the following schedule of charges:

Where the number of exchange stations is	The annual farmer line rate shall be
Over 20,000	$15.00
10,000 to 20,000	11.00
5,000 to 10,000	8.00
3,000 to 5,000	6.00
2,000 to 3,000	5.00
1,000 to 2,000	4.00
500 to 1,000	3.50
Under 500	3.00

Reparation

Finding No. VII

The contention made by the City of Seattle relative to the validity of the present rates of the company and their prayer for a general [fol. 153] reparation order is not supported by the facts or the law, and that portion of the complaint should therefore be dismissed.

Discussion

The existing rates of the Pacific Telephone and Telegraph Company were first established during the period of Federal control, and inasmuch as there existed a doubt as to the validity and legality of rates established during that period being legally continued without some affirmative action on the part of the Commission, the Pacific Telephone and Telegraph Company at the conclusion of Federal control refiled with the Commission the same schedule of rates and the Public Service Commission entered an affirmative order permitting the same to become effective on less than statutory notice.

We find nothing in the record which would lead us to any conclusion except that the rates now in effect are and have been since the conclusion of Federal control the only legal and valid rates applicable during that period.

Petitions to Reopen Case

Some two weeks subsequent to the conclusion of all of the hearings [fol. 154] in this case, the Seattle Chamber of Commerce, the Port

of Seattle and the County Commissioners of King County, Washington, filed with the Department petitions requesting the reopening of this case. The time for the suspension of the proposed increase in rates in this case expires on April 1, 1923.

In view of the foregoing statements relative to procedure notice, etc., the wide newspaper publicity given the matter periodically since the latter part of the year 1921, and in the absence of a showing warranting the same (the matters in the petition pertinent to the issues having been fully covered by the investigation and reports) petitions for the reopening of this case will be denied.

Dismissal of Cause No. 4902

Cause No. 4902 entitled The Public Service Commission of Washington v. The Pacific Telephone and Telegraph Company is an old proceeding relating to facilities and service of respondent in the City of Seattle. There being no reason for continuing the same upon our docket, the matters and things therein alleged being no longer an issue the same is hereby dismissed.

[fol. 155] Order

It is hereby ordered

1. That the respondents, Pacific Telephone and Telegraph Company and Home Telephone and Telegraph Company of Spokane, file with this Department within fifteen (15) days from the date of service of this order, tariffs or supplements to their respective tariffs in conformity with the findings of fact and directions herein contained; and that all rates, rules and regulations as amended or supplemented as herein found and ordered be, and they are hereby made effective as of April 1st, 1923.

2. That Cause No. 4902 entitled "The Public Service Commission of Washington v. The Pacific Telephone and Telegraph Company" be, and the same is hereby dismissed.

Witness The Department of Public Works of Washington this 31st day of March, 1923.

Department of Public Works of Washington, By —— ——, Director. Hance H. Cleland, Supervisor of Public Utilities. By —— ——, Supervisor of Transportation. Attest —— ——, Secretary.

[fol. 156] EXHIBIT "F" TO BILL OF COMPLAINT

The Pacific Telephone and Telegraph Company

Exchange Rates, Seattle-Tacoma, Washington; Farmer Line Rates, Exchanges, State of Washington; Toll Rates, State of Washington, Set Out in Dissenting Opinion of Hance H. Cleland, Supervisor of Public Utilities, State of Washington, in Case Numbers 4902 and 5344

Seattle Exchange

Business—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$10.50	$10.75
Extension (with or without bell)	1.00	1.25
Suburban Service—Ten-party Line	3.50	3.75

Business Measured Service

	Rate per month		Free exch. messages per month	Each additional exchange message
	Wall set	Desk set		
Individual Line	$6.50	$6.75	130	$.05
Extension (with or without bell)	.75	1.00	...	....

[fol. 157] Semi-public Coin Box Service

	Rate per day		Each exchange message
	Wall set	Desk set	
Individual Line	$.20	$*.	$.05

*25c. per month additional.

	Wall set	Desk set
Extension (with or without bell) per month	$1.00	$1.25

Residence—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$4.25	$4.50
Two-party Line	3.50	3.75
Four-party Line	2.75	3.00
Extension (with or without bell)	.75	1.00
Suburban—Ten-party Service	3.00	3.25

Tacoma Exchange

Business—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$8.00	$8.25
Extension (with or without bell)	1.00	1.25
Suburban Service—Ten-party Line	3.50	3.75

Business—Measured Service

	Rate per month		Free exch. messages per month	Each additional exchange message
	Wall set	Desk set		
Individual Line	$5.50	$5.75	110	$.05
Extension (with or without bell)	.75	1.00	...	....

Semi-public Coin Box Service

	Rate per day		Each exchange message
	Wall set	Desk set	
Individual Line	$.20	$*.	$.05

*25c. per month additional.

Residence—Unlimited Service

	Rate per month	
	Wall set	Desk set
Extension (with or without bell) per month	$1.00	$1.25

Residence—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$3.50	$3.75
Two-party Line	2.75	3.00
Four-party Line	2.25	2.50
Extension (with or without bell)	.75	1.00
Suburban—Ten-party Service	3.00	3.25

[fol. 158] Hotel Private Branch Exchange Service Rates, Seattle and Tacoma Exchanges, Unlimited Service

Switchboard or Order Board with Battery Power Ringing Circuit, Position Dial, Switchboard Telephone, Each Position

	Rate per month
Cordless Type	$3.00

Non-Multiple Cord Type:

10 lines or less in use	5.00
11- 30 lines in use	6.00
31- 60 lines in use	7.00
61-100 lines in use	8.00
101-150 lines in use	9.00
151-200 lines in use	10.00
201-260 lines in use	11.00
261-320 lines in use	13.00

Multiple Cord Type:

Each position with not to exceed one multiple jack per line	15.00
Each additional strip of ten multiple jacks or portion thereof	.30

Stations on Premises in Which Switchboard or Order Board is Located and connected with That Board

	Seattle	Tacoma
Each station not in guest room, without dial:		
Wall Set	$1.25	$0.95
Desk Set	1.50	1.20
Each station not in guest room, with dial:		
Wall Set	1.50	1.15
Desk Set	1.75	1.40
Each station in guest room, without dial:		
Wall Set	.75	.55
Desk Set	1.00	.80
Each station in guest room, with dial:		
Wall Set	1.00	.75
Desk Set	1.25	1.00

Stations outside premises in which switchboard or order board is located—See Mileage Rates—Section 3.

Trunk lines to central office from switchboard or order boards.

Each bothway trunk line—Individual Line business rate plus $3.00.

Each incoming trunk line—Individual Line business rate.

Tie lines from switchboard or order board or between separate switchboards—See Mileage Rates, Section 3.

Applications are not accepted for less than two (2) trunk lines and four (4) stations, excluding switchboard telephones. If the switchboard is to be installed outside the primary rate area—See Mileage Rates, Section 3.

[fol. 159] Farmer Line Rates

Where the number of exchange stations is	The annual farmer line rate shall be
Over 20,000	$15.00
10,000 to 20,000	11.00
5,000 to 10,000	8.00
3,000 to 5,000	6.00
2,000 to 3,000	5.00
1,000 to 2,000	4.00
500 to 1,000	3.50
Under 500	3.00

The Pacific Telephone and Telegraph Company, State of Washington Inter-Exchange Rates for Intrastate Telephone Toll Messages

I. Classification of Intrastate Toll Telephone Service

The following classes of telephone toll message service shall be furnished effective 12:01 A. M., —— 21, 1922.

1. Station-to-station Messages.—This service shall be defined by the following conditions:

(a) Orders for station-to-station service shall specify the telephone station called, either by telephone number, or by the name of the [fol. 160] subscriber of the called station.

(b) Under this classification, orders will not be accepted to establish communication between particular persons.

(c) The measurement of the duration of a station-to-station message for purposes of the application of rates shall begin at the moment when telephonic communication is established between the called and the calling stations. The term "station" for the purpose of this clause is defined to include a private branch exchange switchboard operator, in those cases where private branch exchange systems are involved in station-to-station service.

(d) Station-to-Station service may be operated as a Number Service, in which case the called station may be designated only by number, through A and B switchboards, or through tandem operators, etc.; or it may be operated through toll switchboards, and technically known as an "AY" service, depending on the local circumstances as to operating conditions, plant conditions, and the circumstances as to directory distribution and areas; and the more economical method will be employed in each case. The choice of [fol. 161] method of operating station-to-station service will be determined solely as an operating arrangement, not in any way affecting rates or service; except that where the number method is employed orders will be accepted stating only the telephone number of the called station.

(e) The charges for station-to-station messages shall not be "reversed," i. e., collected at the called station.

2. Person-to-person Calls.—This service shall be defined by the following conditions:

(a) Orders will be accepted to establish communication between specified persons.

(b) The measurement of the duration of a person-to-person message for the purpose of the application of rates shall begin at the moment when communication begins with or between the particular person or persons specified in the order; provided that certain report charges will be made under the conditions specified in the clause next below, where communication may not be established.

(c) Orders for person-to-person service shall be accepted only under the condition that a limited charge (to be known as "Report Charge") will be made in the following cases where it is impossible [fol. 162] to establish communication between particular persons:

(1) When the order is to establish communication with a particular person in a given city, telephone address unknown, and the particular person can not be secured within one hour (exclusive of any time during which "no circuits" or other cause prevent communication of the order to the distant city or exchange, or its completion).

(2) When the designated person called refuses to talk.

(3) When the report is returned that the designated person called is "out" or "out and will return at (specified time)," or "out and time of return unknown," "is absent from the city," and similar reports advising the calling subscriber of the facts ascertained when failure to complete the order is due solely to the circumstances of the called person or to fault in describing the location of the called person, and when all of the work preliminary to establishing communication with the called person is done.

(4) When communication between the designated persons can not be established because the designated person at the calling station [fol. 163] is absent at the calling station; provided that no charge shall be made in such cases where the delay, if any, in establishing connection is greater than one hour.

(5) When the designated person at the calling station refuses to talk when the facilities for communication have been established.

3. Appointment Calls.—Appointment calls are person-to-person calls, the order for which provides that communication is to be arranged for to take place at a specified time.

4. Messenger Calls.—Messenger calls are person-to-person calls requiring the use of a messenger to secure attendance of a designated person at one of the public pay stations at the distant point.

5. Collect Calls.—Collect calls are person-to-person calls, the charges for which are "reversed," i. e., to be collected from the subscriber of the distant station at which the call is to be completed.

II. Toll Rates for Intrastate Station-to-station Messages

Effective 12:01 A. M., —— 21, 1922, the following initial period rates are established for toll messages where the distance between [fol. 164] exchanges, or toll points, does not exceed 40 miles by direct measurement on a U. S. Government Post Route Map.

For distance more than	But not more than	Initial rate
0 Miles	12 Miles	$0.10
12 "	18 "	.15
18 "	24 "	.20
24 "	32 "	.25
32 "	40 "	.30

The following initial period rates are established for station-to-station toll messages for all distances in excess of 40 miles by direct air line measurement:

For distance more than	But not more than	Initial rate
40 Miles	48 Miles	$0.35
48 "	56 "	.40

For each additional 8 miles or fraction thereof, 5 cents additional.

For the purpose of applying standard rates where the direct air line distance between points is in excess of 40 miles, distance shall be determined as the air line distance between the centers of blocks 7 miles square, within which the points of communication are located, and where the distance is in excess of 350 miles by the air line distance between the centers of sections 35 miles square.

[fol. 165] The block and section scaling system for purposes of measuring toll rate distance between points more than 40 miles distant by direct measurement, shall consist of a grid containing sections 35 miles square, each section subdivided into 25 blocks seven miles square, so placed on a polyconic projection of a Government survey map of the United States that section lines coincide with a line drawn approximately north and south through the center of the United States and with a line at right angles thereto passing through the northwestern point of the International boundary line in the Strait of Georgia.

III. Toll Rates for Other Classes of Toll Calls

Effective 12:01 A. M., —— 21, 1922, the following toll message rates are established for person-to-person calls, appointment calls, and messenger calls:

1. The initial period rates for person-to-person calls shall be approximately 25 per cent in addition to the station-to-station rates between the same points, in accordance with the Schedule of Computed Rates for Person-to-Person, Appointment and Messenger Toll Calls, attached hereto, but no person-to-person rate shall be less than 15 cents.

[fol. 166] 2. In those cases where person-to-person calls are not completed and a report is made or the conditions are such as described in paragraph I, 2 (c) of this schedule a report charge shall be made of approximately one-fourth the initial rate for station-to-station messages between the same points, in accordance with the schedule of Computed Rates for Person-to-Person, Appointments and Messenger Toll Calls, attached hereto and hereby made a part of this schedule; but no report charge shall be less than 5 cents for any one call, nor more than $2.00.

3. The rates for appointment calls shall be approximately 50 per cent in addition to the rates for station-to-station messages between the same points in accordance with the Schedule of Computed Rates for Person-to-Person, Appointment and Messenger Toll Call, hereto attached and hereby made a part of this schedule; but in the case of an appointment call order, where the distant station is reached, whether the appointment be made or not, the Report Charge applicable in case of person-to-person calls between the same points shall be made.

4. The rates for messenger calls shall be the same as applied to appointment calls, between the same points, plus any charges that may be required for the service of messengers.

[fol. 167] IV. Standard Toll Night Rates

Effective 12:01 A. M., —— 21, 1922, the following reductions shall be effective in the rates and charges for station-to-station messages only, between the hours of 8:30 P. M. and 4:30 A. M.

1. Between the hours of 8:30 P. M. and 12 midnight, the night rates for station-to-station messages shall be approximately 50 per cent less than the regular day rates, in accordance with the Schedule of Computed Night Rates attached hereto and hereby made a part of this schedule, but no night rate shall be less than 25 cents.

2. Between the hours of 12 midnight and 4:30 A. M., the night rates shall be approximately 75 per cent less than the established day rates, in accordance with the Schedule of Computed Night Rates attached hereto, and hereby made a part of this schedule; but no night rate shall be less than 25 cents.

3. For the purpose of applying night rates, the time of day at the point at which a station-to-station message originates shall be used.

4. Day rates only shall be employed between the hours of 4:30 A. M. and 8:30 P. M.

[fol. 168] V. Initial Period, Overtime Periods, and Overtime Rates

Effective 12:01 A. M., —— 21, 1922, the following initial periods, overtime periods and overtime rates are established:

Classification	Initial period	Overtime period
Station-Station	3 minutes	1 minute
Person-Person	2 minutes	1 minute
Messenger and appointment	2 minutes	1 minute

The overtime rates shall be—

Station-to-station:

Where the initial rate is	Overtime rate per period
*$0.15	$0.05
.15	.05
.20	.05
.25	.05
.30	.10
.35	.10
.40	.10
.45	.15

and thereafter approximately one-third of initial rate and in no case more than one-third of the initial rate.

[fol. 169] Person-to-person and Messenger and Appointment.

Where the initial rate is	Overtime rate per period
$0.15	$0.05
.20	.10
.25	.10
.30	.15
.35	.15
.40	.20
.45	.20

and thereafter approximately one-half of the initial rate and in no case more than one-half of the initial rate.

*Minimum Messenger and Appointment Rate $0.20.

Schedule of Computed Rates for Person-to-Person Appointment and Messenger Toll Calls

When the station-to-station day rate is	The completed person-to-person rate is	The completed appointment and messenger rate is	The report charge is
$0.10	$0.15	$0.20	$0.05
.15	.20	.25	.10
.20	.25	.30	.10
.25	.30	.35	.10
.30	.40	.45	.10
.35	.45	.50	.10
.40	.50	.60	.10
.45	.55	.65	.15
.50	.60	.75	.15
.55	.65	.80	.15
.60	.75	.90	.15
.65	.80	.95	.20
.70	.85	1.05	.20
.75	.90	1.10	.20
[fol. 170]			
.80	1.00	1.20	.20
.85	1.05	1.25	.25
.90	1.10	1.35	.25
.95	1.15	1.40	.25
1.00	1.25	1.50	.25
1.05	1.30	1.55	.30
1.10	1.35	1.65	.30
1.15	1.40	1.70	.30
1.20	1.50	1.80	.30
1.25	1.55	1.85	.35
1.30	1.60	1.95	.35
1.35	1.65	2.00	.35
1.40	1.75	2.10	.35
1.45	1.80	2.15	.40
1.50	1.85	2.25	.40
1.55	1.90	2.30	.40
1.60	2.00	2.40	.40
1.65	2.05	2.45	.45
1.70	2.10	2.55	.45
1.75	2.15	2.60	.45
1.80	2.25	2.70	.45
1.85	2.30	2.75	.50
1.90	2.35	2.85	.50
1.95	2.40	2.90	.50
2.00	2.50	3.00	.50
And thereafter increasing in 5 cent steps.	And thereafter 25% in addition to the Station-to-Station day rate. When the Station - to - Station day rate is not evenly divisible by 4, 25% in addition to the Station - to - Station day rate, computed to the next lower multiple of 5 cents.	And thereafter 50% in addition to the Station-to-Station day rate. When the Station - to - Station day rate is not evenly divisible by 2, 50% in addition to the Station - to - Station day rate, computed to the next lower multiple of 5 cents.	And thereafter one-fourth the Station - to - Station day rate. When the Station - to - Station day rate is not evenly divisible by 4, one-fourth the Station - to - Station day rate computed to the next higher multiple of 5 cents; but no Report Charge will exceed $2.00.

Schedule of Computed Night Rates for Station-to-Station Toll Messages

When the day rate is	The rate between 8:30 p. m. and 12:00 midnight is	The rate between 12 midnight and 4:30 a. m. is
$.10	Day Rate	Day Rate
.15	" "	" "
.20	" "	" "
.25	" "	" "
.30	$.25	$.25
.35	.25	.25
[fol. 171]		
.40	.25	.25
.45	.25	.25
.50	.25	.25
.55	.30	.25
.60	.30	.25
.65	.35	.25
.70	.35	.25
.75	.40	.25
.80	.40	.25
.85	.45	.25
.90	.45	.25
.95	.50	.25
1.00	.50	.25
1.05	.55	.30
1.10	.55	.30
1.15	.60	.30
1.20	.60	.30
1.25	.65	.35
1.30	.65	.35
1.35	.70	.35
1.40	.70	.35
1.45	.75	.40
1.50	.75	.40
1.55	.80	.40
1.60	.80	.40
1.65	.85	.45
1.70	.85	.45
1.75	.90	.45
1.80	.90	.45
1.85	.95	.50
1.90	.95	.50
1.95	1.00	.50
2.00	1.00	.50
And thereafter increasing in 5 cent steps.	And thereafter one-half the day rate. When the day rate is not evenly divisible by 2, one-half the day rate computed to the next higher multiple of 5 cents.	And thereafter one-fourth the day rate. When the day rate is not evenly divisible by 4, one-fourth the day rate, computed to the next higher multiple of 5 cents.

[File endorsement omitted.]

[fol. 172] UNITED STATES OF AMERICA:

In the United States District Court for the Western District of Washington. In Equity

No. 166-E

SUBPŒNA AND RETURN—Filed Apr. 26, 1923

The President of the United States of America to E. V. Kuykendall, as Director of Public Works of Washington; Hance H. Cleland, as Supervisor of Public Utilities of Washington, and Frank R. Spinning, as Supervisor of Transportation of Washington, the person constituting the Department of Public Works of the State of Washington, and John H. Dunbar, Attorney General of the State of Washington, Defendants, Greeting:

You are hereby commanded, That you be and appear in said District Court of the United States aforesaid, at the Court Room of said Court, in the City of — on the 14th day of May, 1923 to answer a Bill of Complaint filed against you in said Court by The Pacific Telephone and Telegraph Company, a Corporation and to do and receive what the Court shall have considered in that behalf. And this you are not to omit under the penalty of the law.

Witness the Honorable Edward E. Cushman, Judge of said Court, and the seal thereof, at Tacoma, Washington, this 24th day of April, 1923.

——— ———, Clerk, By Alice Huggins, Deputy Clerk. (Seal U. S. Court.)

Memorandum Pursuant to Rule 12, Supreme Court U. S.

You are hereby required to enter your appearance in the above mentioned suit on or before twenty days from the date of service, excluding the day thereof, at the Clerk's office of said Court, pursuant to said Bill; otherwise the said Bill will be taken pro confesso.

——— ———, Clerk, By Alice Huggins, Deputy Clerk. (Seal U. S. Court.)

Return on Service of Writ

UNITED STATES OF AMERICA,
Western District of Washington, ss:

I hereby certify and return that I served the annexed Subpœna in Equity on the therein-named E. V. Kuyendall, as Director of Public Works of Washington, by handing to and leaving a true and correct copy thereof with Frank R. Spinning, Supervisor of Transportation of Washington, at his usual place of business personally at Olympia, Washington in said District on the 25th day of April, A. D. 1923.

E. B. Benn, U. S. Marshal, By John T. Secrist, Deputy.

Marshal's Return

UNITED STATES OF AMERICA,
Western District of Washington, ss:

I hereby certify, That I have served the within writ by delivering to and leaving a true copy thereof with Hance H. Cleland, as Supervisor of Public Utilities of Washington, Frank R. Spinning as Supervisor of Transportation of Washington, and John H. Dunbarr, as Attorney General of Washington, at Olympia, Washington.

E. B. Benn, United States Marshal, By John T. Secrist, Deputy. April 25, 1923. Fees: 10.68.

[File endorsement omitted.]

[fol. 173] IN UNITED STATES DISTRICT COURT

RESTRAINING ORDER—Filed Apr. 28, 1923

This matter coming on for hearing before the Honorable Edward E. Cushman, Judge of the above named court on the motion of the above named plaintiff for a temporary restraining order, restraining the defendants, and each of them, and all other persons from attempting to compel the plaintiff, its officers, agents and employees, to observe, maintain or keep in force the rates and charges now prescribed by the Department of Public Works of Washington, as set forth in Schedule "Exhibit A" referred to in the bill of complaint and filed therewith, and from attempting to interfere with or prevent the plaintiff, its directors, officers, agents and employees, from immediately putting into effect the rates and charges set forth in schedule "Exhibit F" referred to in the bill of complaint and filed therewith, and from taking any steps or proceedings against the plaintiff, its directors, officers, agents, or employees, to enforce any penalty or remedy against the plaintiff, its directors, officers, agents or employees, for disregarding the rates and charges set forth in said schedule "Exhibit A," or from putting into effect any rates or charges not in excess of those set forth in said schedule "Exhibit F," and that an order to show cause herein, upon the application of the plaintiff herein, directed to the above named defendants, and each of them, requiring them, and each of them, to show cause why a temporary injunction should not issue as prayed for in the bill of complaint heretofore filed herein, and it being necessary that notice of said application for said temporary injunction be given before said application shall be heard and determined to not only all of the defendants named herein, but to the Governor of the State of Washington [fol. 174] as well; It is therefore, ordered that the defendants, and each of them, be and appear before the above named court in the District Court of the United States in and for the Western District of Washington, Southern Division, sitting at Tacoma, in said Dis-

trict on the 30th day of April, 1923, at the hour of ten o'clock in the forenoon of said day, or as soon thereafter as a court constituted as provided by Section 266 of the Judicial Code of the United States can be convened, then and there to show cause, if any they have, why they, and each of them, should not be enjoined and restrained in the manner hereinbefore stated.

It further appearing to the court that immediate and irreparable loss and damage will result to the plaintiff unless a temporary restraining order is granted, it is ordered that until a hearing of this show cause order and determination thereof, the defendants, and each of them, and all other persons, are restrained from attempting to compel the plaintiffs, its officers, agents and employees, to observe maintain and keep in force the rates and charges now prescribed by the Department of Public Works of Washington, as set forth in schedule "Exhibit A" referred to in the bill of complaint and filed therewith, and from attempting to interfere with or prevent the plaintiff, its directors, officers, agents, or employees from immediately putting into effect the rates and charges set forth in schedule "Exhibit F" referred to in the bill of complaint and filed therewith, and from taking any steps or proceedings against the plaintiff, its directors, officers, agents or employees to enforce any penalty or remedy against the plaintiff, its directors, officers, agents, or employees for disregarding the rates and charges set forth in said schedule "Exhibit A" and from putting into effect any rates or [fol. 175] charges not in excess of those set forth in said schedule "Exhibit F."

And it is further ordered by the court that a copy of this order be served at least five (5) days before said 30 day of April, 1923, upon each and every of the defendants above named, including the Attorney General, and also upon the Governor of the State of Washington.

And it is further ordered that this order shall become effective upon the plaintiff company giving a bond in the sum of $175,000.00 to be approved by the court, conditioned to reimburse subscribers the excess over the rates set forth in "Exhibit A" in case it is finally determined that the increase in rates hereby authorized ought not to have been authorized; and it is further ordered that until the further order of this court, the plaintiff company shall keep its accounts in such a way that said excess due to the rates made effective by this order and paid by each subscriber, can be readily and accurately ascertained.

And it is further ordered that the plaintiff shall file with the Clerk of the above named court, conveniently after the first day of each month, a statement of the amount collected from each of its subscribers, together with a statement of the amount that would have been collected had the rates set forth in "Exhibit A" been in force, and that when a final decree is entered, if it shall be determined that the rates set forth in "Exhibit A" should have been continued in effect by the plaintiff, then and in that event the difference between the rates set forth in "Exhibit A" and the rates collected, shall be paid to a special master, to be appointed by this court, and by the special master distributed to the various persons entitled to receive

[fol. 176] the same; and that in the event that a final decree is entered, adjudicating that the rates set forth in "Exhibit A" should have been continued in effect by the plaintiff, and the plaintiff should fail to pay to the special master the difference between the rates set forth in "Exhibit A" and the rates collected, then the special master, appointed by this court, may institute suit on the bond in behalf of all the subscribers, to recover the amounts to which they, respectively, may be entitled.

Done in open court this 24th day of April, 1923.

Edward E. Cushman, Judge.

I hereby certify that I received the annexed Restraining Order and Order to Show Cause on the 25th day of April, 1923, and thereafter on the same date, I served E. V. Kuykendall as Director of Public Utilities of the State of Washington and Hance H. Cleland as Supervisor of Public Utilities, by delivering to and leaving with J. H. Brown, Secretary of the Department of Public Works at Olympia, two certified copies of this Order. Thereafter on the same date, I served Frank R. S. Spinning, Supervisor of Transportation of the State of Washington, John H. Dunbar Attorney General of the State of Washington, John H. Dunbar, Attorney General of the Washington, by delivering to and leaving with them a certified copy of this Order.

E. B. Benn, U. S. Marshal, By E. E. Gaskill, Deputy.

[File endorsement omitted.]

[fol. 177] In the District Court of the United States for the Western District of Washington, Southern Division

[Title omitted]

Affidavit of C. E. Fleager—Filed Apr. 24, 1923

State of California,
City and County of San Francisco, ss:

I, C. E. Fleager, being first duly sworn, depose and say: That I reside in Berkeley, California, and am forty-three years of age; I have been employed in the telephone business for twenty-three years and by The Pacific Telephone and Telegraph Company and its predecessors for twenty-one years; I am Assistant Vice-President of plaintiff company and during my experience with said company [fol. 178] have had responsible charge of general engineering matters running to the design and construction of toll and exchange lines, fundamental engineering plans, inventory and appraisal work and similar general engineering matters; I am familiar with telephone properties and with the work, labor and material entering into the construction of the same and with the units of cost thereof and in the regular course of my employment I have engaged at dif-

ferent times in making appraisals of telephone property situated in the States of Idaho, Washington, Oregon, California and Nevada, the aggregate values of such run over one hundred millions of dollars, and during the last nine years I have been giving particular attention to the analysis of all costs incurred by telephone companies in all work of construction performed by them.

I am thoroughly familiar with the entire property belonging to the plaintiff company in the State of Washington and devoted by it to the furnishing of intrastate telephone service in said state and for some years past have had responsible charge of inventory and appraisal work in connection with that property; that for several months I have been employed with a force under my direction in making an appraisal of said property and in the course of such em- [fol. 179] ployment I have made a valuation as of the present time, of all of the property used or useful by the plaintiff company in the rendition of its telephone service in the State of Washingotn.

In arriving at the present fair value of the property of plaintiff hereinafter stated I have taken into consideration among other things, the following facts and matters:

(a) The cost of said property as evidenced by the affidavit of C. T. Blanck, filed herein, is the sum of $29,347,254 as of December 31, 1922, for the entire property in the state; (excluding Spokane); for the property in the Seattle Exchange the sum of $17,023,372 and the property in the Tacoma Exchange the sum of $2,888,021, and the fact that said cost includes the cost of a large amount of property, approximately fifty per cent of the total, which was constructed prior to the year 1915 before the increases in labor and material costs due to conditions prevailing during and since the World War became operative.

(b) The amount on the books for said property being the sum of $30,009,059 for the property in the State of Washington (excluding Spokane); the sum of $17,344,047 for the property in the Seattle [fol. 180] Exchange and the sum of $3,009,769 for the property in the Tacoma Exchange, all as of December 31, 1922.

(c) The cost of reproduction new of said property. By using the actual units of property making up the said plant used or useful and devoted exclusively to the rendition of telephone service by the plaintiff in the State of Washington and applying thereto prices of labor and material proper as of this time, I have determined the cost of reproduction of said property to be, as of December 31, 1922, the sum of $48,087,785 for the State of Washington (excluding Spokane); the sum of $27,149,130 for the Exchange of Seattle and the sum of $4,998,964 for the Exchange of Tacoma. This value includes a reasonable allowance for working capital, materials and supplies and for the item usually called going concern value. In ascertaining the cost of reproduction new, above stated, I have used prices which I regard as applicable and which are considerably lower than the prices prevailing during and since the World War. Had I used the peak prices prevailing during and since the World War the cost of reproduction new of said property would have been

a sum in excess of $55,000,000 for the State of Washington (exclud-
[fol. 181] ing Spokane); $31,000,000 for the Seattle Exchange and $5,700,000 for the Tacoma Exchange.

(d) Said telephone property of the plaintiff is and has been, at all times of my employment with the plaintiff company, in a 100 per cent service condition and I have, from time to time, observed and caused to be observed, inspected and examined said property and parts thereof and, in a general way, am familiar personally with the present condition of said property. I have taken into consideration, in arriving at the present fair value of said property, such depreciation in the property as actually exists and have determined that the cost of reproduction of said property less depreciation as of the thirty-first day of December, 1922, for the State of Washington (excluding Spokane); is the sum of $43,962,085; for the Exchange of Seattle the sum of $24,919,930 and for the Exchange of Tacoma the sum of $4,534,264.

(e) Appraisals made of the land owned by the plaintiff throughout the State of Washington, as determined from time to time by disinterested appraisers familiar with real estate values in the various localities in which said parcels of land are located.

[fol. 182] (f) Based upon my experience in examining and appraising the properties and operations of the plaintiff company and my knowledge of plaintiff's actual requirements over several years for working capital and material and supplies necessary in the rendition of telephone service in the State of Washington, I have estimated the amount reasonably required by plaintiff (excluding Spokane) for such purposes at not less than $1,013,100.

After giving careful consideration to all of plaintiff's property, its history, location and character, and to the factor usually called going concern value, and all facts and matters above enumerated and all other factors within my knowledge affecting its value, it is my opinion that the present fair value of the entire property of the plaintiff used or useful and devoted by it to furnishing telephone service in the State of Washington (excluding Spokane) as of December 31, 1922, is in excess of the sum of $35,616,896; for the Exchange of Seattle in excess of the sum of $20,852,067 and for the Exchange of Tacoma in excess of the sum of $3,457,290.

I further say that in arriving at such present fair value I have made no allowance for the value of any of plaintiff's franchises or
[fol. 183] rights to own or operate a telephone system in the State of Washington or any of its municipalities.

C. E. Fleager.

Subscribed and sworn to before me this 19th day of April, 1923. Frank L. Owen, Notary Public in and for the City and County of San Francisco, State of Calif. (Notarial Seal.)

[File endorsement omitted.]

[fol. 184] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

AFFIDAVIT OF C. T. BLANCK AS TO COST OF CONSTRUCTION OF PROPERTY—Filed Apr. 24, 1923

STATE OF CALIFORNIA,
City and County of San Francisco, ss:

C. T. Blanck, being first duly sworn, deposes and says: That he resides in the City of Berkeley, State of California; that he is thirty-six (36) years of age, and, in the year 1902 was first employed in telephone engineering, construction and maintenance work by The Pacific Telephone and Telegraph Company, and its predecessors, and [fol. 185] was continuously employed by the Company until the end of the year 1917 when he entered the United States Army as a commissioned officer in the Signal Corps and upon his return from France upon completion of his military service, late in the year 1919, re-entered the employ of The Pacific Telephone and Telegraph Company and he has since been employed continuously by the plaintiff company in general engineering and appraisal work.

That he is thoroughly familiar with telephone properties and with the cost of labor and materials entering into the construction of same and with the units of cost thereof, and in the regular course of his employment he has engaged in making appraisals of telephone properties situated in the States of Washington, Idaho, Oregon, California and Nevada, and in France, the aggregate value of which runs into more than one hundred millions of dollars and, during the last sixteen or seventeen years, he has given particular attention to the analysis of all costs incurred by telephone companies in all work of construction performed by them.

That he is thoroughly familiar with the entire property belonging to the plaintiff company in the State of Washington and devoted by it to the furnishing of telephone service in said State.

[fol. 186] That in arriving at the cost to plaintiff of its property in the State of Washington, he has taken into consideration, among other things, the following facts and matters:

(a) The exhaustive inventory and appraisal of said property as of December 31, 1913. This appraisal was made on the basis of actual performance applied to the items of property as inventoried, with the exception of the item "Land," which was included therein at the then market value, determined by disinterested appraisers familiar with real estate valuation in the various localities in which the parcels of such lands and buildings were located. This actual performance basis was determined from the costs as shown by the official records of the Company which were and are kept in accordance with the system of accounting for telephone companies prescribed by the Interstate Commerce Commission in its circular entitled "Uni-

form System of Accounts for Telephone Companies" and which system was adopted by the Public Service Commission, now the Department of Public Works of the State of Washington.

This inventory and appraisal was exhaustively checked by engineers of the Public Service Commission and was found by them to [fol. 187] be substantially correct. This inventory and appraisal was presented in formal hearing before the Public Service Commission of the State of Washington on January 24, 1916, in Case No. 1810, before said Commission, and identified in the records of that case as Company Exhibit No. 1, Vols. 1-24, inclusive, and Exhibit No. 4, Vols. 25-53, respectively.

(b) The additions and betterments to said property during the period December 31, 1913, to December 31, 1922. The additions and betterments, or "Net Additions," are taken from the official records of the Company and represent the literal facts taken from reports of actual daily operations in accordance with the principles established in the accounting methods prescribed by the Interstate Commerce Commission and the Public Service Commission, now the Department of Public Works of the State of Washington.

(c) The amount on the books of plaintiff for Fixed Capital (excluding Intangible Capital) and Working Assets as of December 31, 1922. This is the sum of $30,009,059, for the property in the State of Washington; sum of $17,344,047 for the Seattle Exchange; and, the sum of $3,009,769 for the Tacoma Exchange, all as of December 31, 1922.

[fol. 188] That adding the additions and betterments to the actual performance appraisal as of December 31, 1913, the cost to plaintiff of its property in the State of Washington (not including Spokane, that being the property of The Home Telephone and Telegraph Company of Spokane and Land being included at present value), as of December 31, 1922, was the sum of $29,347,254, including therein the sum of $1,013,122 for Working Capital and Materials and Supplies; that the cost to plaintiff of its property in its Seattle Exchange (Land being included at present value) amounts to the sum of $17,023,372, included therein being the sum of $709,509 for Working Capital and Materials and Supplies; that the cost of its property in its Tacoma Exchange (Land being included at present value) amounts to the sum of $2,888,021, included therein being the sum of $131,646 for Working Capital and Materials and Supplies.

That the cost of the property of plaintiff so found herein is substantially the same as the value for rate making purposes fixed by the Department of Public Works in their Findings of Fact, Order and Opinion in Cause, Case 5344, as of June 30, 1922, plus actual additions and betterments to December 31, 1922.

[fol. 189] That the cost of the property of plaintiff so found herein is less than the amount on the books of plaintiff for said property

C. T. Blanck

Subscribed and sworn to before me this 19th day of April, 1923. Frank L. Owen, Notary Public in and for the City and County of San Francisco, State of Calif. (Notarial Seal.)

[File endorsement omitted.]

[fol. 190] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

AFFIDAVIT OF J. C. NOWELL—Filed Apr. 24, 1923

STATE OF CALIFORNIA,
City and County of San Francisco, ss:

J. C. Nowell, being first duly sworn, deposes and says that he is the Vice-President and General Manager of the plaintiff, The Pacific Telephone and Telegraph Company, and resides at Hillsborough, California. That he was graduated from the Massachusetts Institute of Technology in the year 1894 with the degree of Bachelor of Science. That he has been in the telephone business for twenty-
[fol. 191] nine years continuously; that he was first employed as Inspector by the American Telephone and Telegraph Company; that he was employed in the Plant Department of the Bell Telephone Company of Philadelphia and its successor, the Bell Telephone Company of Pennsylvania, from 1895 to 1913, successively as Supervisor, Superintendent of Maintenance, Engineer and General Superintendent of Plant. That on or about March 14, 1913, he became General Manager of plaintiff, and afterwards and on or about August 6, 1919, he became Vice-President and General Manager thereof, which position he still holds.

That ever since he became General Manager he has had, and still has, general charge of the operating departments of plaintiff; that he is thoroughly familiar with all branches of its business and with its methods of conducting same, and with all of its plant and property. That the plaintiff owns and operates telephone and telegraph lines and exchanges and conducts a public telephone and telegraph business in the States of Washington, Oregon, California, Nevada and Idaho. That the plaintiff furnishes exchange service and also toll service. That it had on December 31, 1922, in its entire system,
[fol. 192] 708 central offices or exchanges; that of said central offices 702 are within the State of Washington outside the Spokane Exchange, and six in the Spokane Exchange, the exchange last mentioned being the property of The Home Telephone and Telegraph Company of Spokane, all of the capital stock of which is owned by plaintiff.

That plaintiff is now operating in its entire system upwards of 377,000 telephones, or as they are commonly referred to in the tele-

phone business, "stations." That of said number of stations upwards of 141,000 are in the State of Washington outside the Spokane Exchange, and upwards of 31,700 in the exchange last named. That the number of stations operated by the plaintiff is growing continually and the estimated growth in the number of stations during the year 1923 in the State of Washington is upwards of 8% of the stations now in service, or in other words, approximately 11,400 stations will be added to the plaintiff's system in that state during the year, not including Spokane, and 2,100 stations in the Spokane Exchange.

That the plaintiff has in the State of Washington more than 116,000 subscribers' accounts, of which more than 56,000 are for Seattle subscribers and more than 16,000 for Tacoma subscribers; [fol. 193] that there are more than 22,000 subscribers' accounts for Spokane. That between December 31, 1912, and December 31, 1922, the number of stations operated by the plaintiff in the State of Washington, outside of Spokane, has increased from 83,300 to upwards of 141,000 and in Spokane from 21,411 to upwards of 31,700.

That of the 12 central offices in Seattle three have machine switching and nine have manual equipment. Of the manual central offices three are to be replaced by machine switching during 1923 or early in 1924.

That the Department of Public Works in its majority opinion of March 31, 1923, has quoted from a paper read before the American Institute of Electrical Engineers in 1919, and draws from this paper the conclusion: "We must therefore conclude that the installation of the machine switching device in Seattle will, on the whole, reduce the Company's expenses and our conclusion and order in this case will be made with that assumption in view." That in the judgment of Affiant the Department of Public Works is no more warranted in applying to Seattle a conclusion drawn by them from said article than they would be warranted in deducing from the fact that because a certain number of bushels of grain per acre might [fol. 194] be grown in the Palouse country, that therefore the same or any fixed number of bushels of grain per acre could be grown in Thurston County, Washington, for the reason that the applicability or otherwise of any results experienced in the exchanges upon which said paper was based, would depend entirely upon whether the factors and conditions existing in those exchanges existed in Seattle. That with reference to the exchanges cited by the Department, it is patent upon the face of the record, i. e., the article relied upon by them, that the data referred to comprises only operating expenses and is cited without reference to total results inclusive of carrying charges upon total investment, which omission makes impossible a conclusion in Seattle based upon the incomplete results recited in the article. On the other hand, the conditions in Seattle are well known and have been completely and thoroughly investigated by the Department's engineering force. Affiant asserts that the machine switching installation at Seattle partially replacing at this time manual equipment, does not effect immediate economies in the total operations involved in giving telephone service to the people

of the City of Seattle now nor will it for the next several years. That in spite of this fact the installation of machine switching equip-
[fol. 195] ment in Seattle was warranted by the following considerations: that experience in general industry shows that whenever machine operation is sufficiently developed to insure satisfactory production at costs that are no higher than for manual operation, the substitution should be made. That this practice has been consistently followed in developing the telephone business and now a large part of the work is done by machinery that was formerly done by hand. That machine methods offer a wide field for additional improvements which will help to cut down the constant increase in operating costs in large cities caused by the growth in stations and calls to be handled requiring the installation of more expensive cable plant and central office equipment, not only for connecting new subscribers to the central offices, but also required to handle the ever increasing calls from subscribers connected with one central office, for subscribers connected with a distant central office; that machine operation also provides means for furnishing more speedy and satisfactory service on such calls than does manual equipment.

That the machine switching equipment installed in Seattle is of a type known to be capable of meeting the traffic and service conditions inhering in the Seattle Exchange at this time, and known to
[fol.196] be capable of satisfactorily and economically caring for the expansion of stations and traffic with the growth of the city. That the equipment has other immediate advantages, several of which were referred to in the majority order, namely:

1. Speed of connection and disconnection.

2. Ease of obtaining connection and disconnection.

3. Accuracy of connection.

4. Voice transmission.

5. Secrecy.

6. The elimination of such faults inherent in manual operation as—

(1) Fluctuation of service.

(2) Impairment of service by epidemics, strikes, etc.

(3) Mistranslation of calling subscribers' desires.

That on the 22nd day of September, 1919, Cause No. 4902 was brought by the Public Service Commission of Washington against plaintiff, alleging inadequacy of facilities and service properly to meet the requirements of the people of Seattle. That at the hearing of said cause the plans of plaintiff for changes in its method of operation and additions to plant requisite to meet the situation, in-
[fol. 197] cluding the installation of machine switching equipment, were developed before the Commission. That the expenditures of plaintiff during 1920, 1921 and 1922 in the City of Seattle were

largely controlled by the plans developed at the hearing in said cause which was not dismissed until in the order of March 31, 1923.

That the plant and property of plaintiff are at all times kept in first class condition by making necessary repairs and renewals so that from an operating and service standpoint all of the plant and property in its entire system are kept in a high state of operating efficiency.

That the business of plaintiff requires large amounts of new capital continually because of the continual growth of the business and because of its character; that as new subscribers or users of the service are added to the system, it is necessary to install new telephones, equipment and wires running from the place where the telephone station is located to the central office from which the telephones are served. That as the capacity of the switchboards of the plaintiff is filled up, the installation of additional switchboards, apparatus and equipment, the rearrangement of central offices, the acquisition of [fol. 198] additional real estate and the construction of new buildings are required, the total cost of which runs into great sums of money. That the actual net expenditures made by plaintiff for additional property and construction during the years 1921 and 1922 in the State of Washington (excluding Spokane) and for Seattle and Tacoma were as follows:

	Year 1921	Year 1922
State of Washington	$4,660,520.00	$4,389,063.00
Seattle	4,027,238.00	3,495,421.00
Tacoma	69,819.00	86,818.00

That the following amounts are planned to be expended by plaintiff for additional property and construction for the State of Washington (excluding Spokane), and for Seattle and Tacoma during the years 1923 and 1924:

	Year 1923	Year 1924
State of Washington	$4,384,000.00	$3,000,000.00
Seattle	2,560,000.00	1,200,000.00
Tacoma	286,000.00	300,000.00

That since becoming General Manager of plaintiff in the year 1913 one of Affiant's chief duties has been to supervise and examine into the operating expenses of the plaintiff and he has made every effort during all of the time since that date to effect as many econo- [fol. 199] mies as possible and to keep the operating expenses at as low a level as is consistent with the maintenance of the plant and the furnishing of good service. That in the opinion of Affiant the operating expenses of plaintiff at the present time are, and during the past have been fair and reasonable.

Affiant asserts that it appears upon the face of the order made by the Department on March 31, 1923, that the return of 6.01% which the Department claims the plaintiff company would realize under the rates approved in said order, must be reduced by the amount of the income tax based upon the results of the rates specified in said

order, payable for the year 1923 by the plaintiff company for the plaintiff system in the State of Washington, for the reason that although the Department stated that said income tax should be included as an expense before reaching a net upon which to figure a per cent return, which income tax in fact to the amount of more than $95,000.00 was included in the computation made in the order, nevertheless said amount was omitted in the calculation used in arriving at the return of 6.01%. In fact the correction of this, without considering other mathematical errors made by the Department [fol. 200] in the majority order which would further reduce the indicated return to plaintiff, would, on the basis used by the Department, develop a return of only 5.74% instead of 6.01%.

That Affiant is familiar with the contract between plaintiff and the American Telephone and Telegraph Company, referred to in the order of the Department of March 31, 1923, as the "4½% of contract," and in particular Affiant is familiar with the services rendered by said American Company to plaintiff under said contract. That the telephone service as rendered by plaintiff at this time could not be rendered without the facilities and services furnished by the American Company under said contract. That such services and equipment are not available to the Pacific Company from any other source. That in consequence, the payment by plaintiff of the sum of $388,365.00 for the year 1922 made in payment of such services, and the corresponding amount due and payable under said contract from the revenues of 1923 were and are inescapable. That said services and the equipment furnished in conjunction therewith are and will be worth to plaintiff in excess of the amount paid and payable to the American Company under said contract. That said services [fol. 201] can not be secured for the payment of $161,653.00, the amount arbitrarily set up by the Department for the year 1923, and that the return of 5.74% disclosed by the above correction of the Department's calculation, would for this reason alone, be reduced by the difference between said amount and the amount payable under the contract, and that this difference for the revenues set out in the majority opinion, for the year 1923 is the sum of $226,347.00.

That in addition to the corrections noted above, the expense for depreciation to be met by plaintiff from its revenues from its system in the State of Washington, as set out in the affidavit of C. E. Fleager, will be upwards of $600,000 in excess of the amount figured by the Department. That with the correction of the errors noted and with the 4½% payment and expense for depreciation herein set forth, the rates fixed in the majority order of the Department will give a rate of return to plaintiff from its operations in the State of Washington of not more than 3.35% on the value for rate making purposes fixed by the Department, and of not more than 2.75% on the fair value of plaintiff's property in the State of Washington.

J. C. Nowell.

[fol. 202] Subscribed and sworn to before me this 19th day of April, 1923. Frank L. Owen, Notary Public in and for the City and County of San Francisco, State of Calif. (Notarial Seal.)

[File endorsement omitted.]

[fol. 203] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

AFFIDAVIT OF C. S. CASASSA—Filed April 24, 1923

STATE OF CALIFORNIA,
City and County of San Francisco, ss:

C. S. Casassa, being duly sworn, deposes and says: That he resides in San Francisco, California. That he was first employed in the telephone business in 1897 by the predecessor of The Pacific Telephone and Telegraph Company in the Accounting Department, and has ever since been and is now in the employ of said company in its Accounting Department. That since April, 1912, he has held the [fol. 204] position of Auditor of Disbursements, and since July, 1922, in the absence, on account of illness, of the General Auditor, has been Acting General Auditor of said company, and as such has had complete charge of all its accounts and accounting systems, and is thoroughly familiar with the same.

That the accounts of the plaintiff are and have been since January 1, 1913, kept in accordance with accounting regulations prescribed by the Interstate Commerce Commission and adopted by the Public Service Commission of Washington, now the Department of Public Works of Washington.

That the statements as to costs hereinafter setout contain nothing on account of franchises or on account of the item known as going concern value.

1919

That the net return earned by the plaintiff through its telephone rates and the rendition of its telephone service in the State of Washington (not including Spokane) during the year 1919 amounted to 4.97 per cent; for its Seattle Exchange, 3.97 per cent, and for its Tacoma Exchange, .98 per cent, of the cost of its property used or useful in and devoted exclusively to the rendition of said service, [fol. 205] including necessary working assets. That a statement showing said costs and the results of said operations for 1919 is as follows:

Average Cost of Property

	State of Washington	Seattle	Tacoma
Average Plant and Equip..	$16,853,149	$7,262,230	$2,505,850
Average Working Assets..	865,027	502,197	168,215
Total	$17,718,176	$7,764,427	$2,674,065

Telephone Revenues

	State of Washington	Seattle	Tacoma
Exchange Service	$4,080,851	$2,521,732	$632,616
Toll Service	1,496,650	131,542	47,981
Miscellaneous	111,746	67,129	18,233
Total Tel. Rev. ...	$5,689,247	$2,720,403	$698,830

Telephone Expenses

	State of Washington	Seattle	Tacoma
Current Maintenance	$926,226	$429,988	$107,365
Deprec. & Amortization...	951,580	404,431	146,249
Traffic	1,731,529	1,008,858	242,323
Commercial	451,390	216,922	70,845
Gen. and Misc.	127,973	54,284	14,129
Uncollectible Opr. Rev. ..	19,037	10,071	3,898
Taxes	320,114	151,199	58,091
Rent Deductions	48,992	23,133	570
Licensee Con. Exprs.	232,194	113,156	29,022
Total Tel. Exps. ..	$4,809,035	$2,412,042	$672,492
Net Tel. Rev.	$880,212	$308,361	$26,338
Per Cent Net Rev.	4.97%	3.97%	.98%

[fol. 206] 1920

That the net return earned by the plaintiff through its telephone rates and the rendition of its telephone service in the State of Washington (not including Spokane) during the year 1920 amounted to 4.42 per cent; for its Seattle Exchange, 1.85 per cent, and for its Tacoma Exchange, .89 per cent, of the cost of its property used or useful in and devoted exclusively to the rendition of said service, including necessary working assets. That a statement showing said costs and the results of said operations for 1920 is as follows:

Average Cost of Property

	State of Washington	Seattle	Tacoma
Aver. Plant & Equip.....	$18,308,353	$8,189,216	$2,560,603
Average Working Assets..	859,853	517,584	154,930
Total	$19,168,206	$8,706,800	$2,715,533

Telephone Revenues

	State of Washington	Seattle	Tacoma
Exchange Service	$4,720,104	$2,954,291	$706,066
Toll Service	1,770,351	154,496	51,537
Miscellaneous	165,524	112,673	23,637
Total Tel. Rev.	$6,655,979	$3,221,460	$781,240

Telephone Expenses

	State of Washington	Seattle	Tacoma
Current Maintenance	$1,203,122	$604,521	$127,385
[fol. 207] Deprec. & Amortization	1,007,652	449,841	153,050
Traffic	2,063,147	1,262,851	260,892
Commercial	508,198	254,804	74,224
Gen. and Misc.	150,925	62,675	15,783
Uncollectible Opr. Rev. ..	15,521	9,988	1,935
Taxes	524,811	252,152	89,049
Rent Deduction	55,601	26,108	1,202
Licensee Con. Exps.....	280,262	137,328	33,527
Total Tel. Exps....	$5,809,239	$3,060,268	$757,047
Net Tel. Rev.	$846,740	$161,192	$24,193
Per Cent Net Rev.	4.42%	1.85%	.89%

1921

That the net return earned by the plaintiff through its telephone rates and the rendition of its telephone service in the State of Washington (not including Spokane) during the year 1921, amounted to 3.30 per cent, for its Seattle Exchange, .69 per cent, and for its Tacoma Exchange, .58 per cent of the cost of its property used or useful in and devoted exclusively to the rendition of said service, including necessary working assets. That a statement showing said costs and the results of said operations for 1921 is as follows:

Average Cost of Property

	State of Washington	Seattle	Tacoma
Average Plant and Equip..	$21,614,809	$10,804,927	$2,634,648
Aver. Working Assets	905,017	608,326	129,566
Total	$22,519,826	$11,413,253	$2,764,214

[fol. 208]

Telephone Revenues

	State of Washington	Seattle	Tacoma
Exchange Service	$4,928,482	$3,058,001	$746,517
Toll Service	1,804,994	165,137	48,900
Miscellaneous	199,845	136,270	25,008
Total Tel. Rev.	$6,933,321	$3,359,408	$820,425

Telephone Expenses

	State of Washington	Seattle	Tacoma
Current Maintenance	$1,355,555	$716,729	$154,344
Deprec. & Amortization ..	1,145,603	543,335	159,725
Traffic	2,092,265	1,240,379	268,968
Commercial	595,316	311,099	84,898
Gen. and Misc.	155,177	65,770	16,329
Uncollectible Opr. Rev. ...	27,929	17,319	3,180
Taxes	467,520	216,776	79,472
Rent Deductions	59,348	25,430	2,127
Licensee Con. Exps.....	292,066	143,456	35,355
Total Tel. Exps. ..	$6,190,719	$3,280,293	$804,398
Net Tel. Rev.	$724,602	$79,115	$16,027
Per Cent Net Revenue	3.30%	.69%	.58%

1922

That the net return earned by the plaintiff through its telephone ates and the rendition of its telephone service in the State of Wash- ngton (not including Spokane) during the year 1922 amounted to 17 per cent, for its Seattle Exchange, .19 per cent, and for its Tacoma Exchange, .89 per cent of the cost of its roperty used or [fol. 209] useful in and devoted exclusively to the rendition of said ervice, including necessary working assets. That a statement show- ng said costs and the results of said operations for 1922 is as follows:

Average Cost of Property

	State of Washington	Seattle	Tacoma
Aver. Plant and Equip. ..	$26,139,600	$14,566,256	$2,712,966
Aver. Working Assets	1,013,122	709,509	131,646
Total	$27,152,722	$15,275,765	$2,844,612

Telephone Revenues

	State of Washington	Seattle	Tacoma
Exchange Service	$5,131,823	$3,179,771	$768,732
Toll Service	2,011,296	204,787	54,497
Miscellaneous	233,001	164,541	27,045
Total Tel. Rev.	$7,376,120	$3,549,099	$850,274

Telephone Expenses

	State of Washington	Seattle	Tacoma
Current Maintenance	$1,329,653	$716,322	$152,667
Deprec. & Amortization ..	1,297,881	660,148	164,154
Traffic	2,180,554	1,316,954	278,430
Commercial	669,843	356,617	90,867
Gen. and Misc.	186,558	78,101	19,728
Uncollectible Opr. Rev. ..	27,250	18,008	3,813
Taxes	468,075	214,897	77,150
Rent Deductions	47,376	8,895	1,485
Licensee Con. Exps.	307,363	149,684	36,532
Total Tel. Exps. ..	$6,514,553	$3,519,626	$824,826
Net Tel. Rev.	$861,567	$29,473	$25,448
Per Cent Net Rev.	3.17%	.19%	.89%

[fol. 210] That the amounts by which the net telephone revenues derived by the company from its telephone business in the State of Washington (not including Spokane), in Seattle and in Tacoma fall short of a return of 8 per cent upon said cost of the property used or useful in and devoted to the rendition of said telephone business are as stated below for the respective periods indicated:

	State of Washington	Seattle	Tacoma
Year 1919	$537,242	$312,793	$187,587
Year 1920	686,716	535,352	193,050
Year 1921	1,058,984	833,945	205,110
Year 1922	1,310,651	1,192,588	202,121

C. S. Casassa.

Subscribed and sworn to before me this 19th day of April, 1923. Frank L. Owen. Notary Public in and for the City and County of San Francisco, State of Calif. (Notarial Seal.)

[File endorsement omitted.]

[fol. 211] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

AFFIDAVIT OF C. E. FLEAGER—Filed Apr. 24, 1923

STATE OF CALIFORNIA,
City and County of San Francisco, ss:

I, C. E. Fleager, being first duly sworn, depose and say: That I am the C. E. Fleager who made the affidavit herein as to value verified the 19th day of April, 1923.

That the property used by the plaintiff in the rendition of its service is classified under the system of accounts prescribed by the Interstate Commerce Commission, the so-called depreciable property [fol. 212] being shown under the following items, with the account numbers as indicated:

212. Buildings.
221. Central Office Telephone Equipment.
222. Other Equipment of Central Offices.
231. Station Apparatus.
232. Station Installations.
233. Interior Block Wires.
234. Private Branch Exchanges.
235. Booths and Special Fittings.
241. Exchange Pole Lines.
242. Exchange Aerial Cable.
243. Exchange Aerial Wire.
244. Exchange Underground Conduits.
245. Exchange Underground Cable.
246. Exchange Submarine Cable.

251. Toll Pole Lines.
252. Toll Aerial Cable.
253. Toll Aerial Wire.
254. Toll Underground Conduit.
255. Toll Underground Cable.
256. Toll Submarine Cable.
261. Office Furniture and Fixtures.
262. General Shop Equipment.
263. General Store Equipment.
264. General Stable and Garage Equipment.
265. General Tools and Implements.

That, in the rendition of its service, the plaintiff uses up the property of the classes indicated in the foregoing classification. [fol. 213] For instance, a switchboard, which under the above classification, would come under the head of central office equipment, Account No. 221, will have a certain useful life in the rendition of the company's service, at the expiration of which it will be discarded.

Among the causes which end the useful life of any piece of depreciable property are natural wear and tear, obsolescence, the fact that it becomes inadequate for the service required of it, public requirements, that is, requirements of public authorities that render necessary changes in plant, storms, fires and other casualties.

When property is discarded, usually more or less salvage is realized from it. Under the said accounting rules and practices the term "net salvage" means the net amount realized from the discarded property; that is, the amount realized from it, less the cost of removing and disposing of it.

The amount of this net salvage will obviously vary radically with the different classes of property. For instance, if it were necessary to take down an old pole line, probably the cost of taking the pole line down would amount to more than the poles could be sold for [fol. 214] so that here the net salvage would be a minus amount. On the other hand, in the case of the switchboard, the net salvage would be a substantial amount, although the fact that the relatively large item of labor incidental to its original installation would be entirely lost, would tend to minimize such net salvage.

The cost of depreciable property used up in the rendition of the plaintiff's exchange service, less the net salvage recovered on account of this property when it is discarded, is a part of what it has cost the plaintiff to render this service during the term of the useful life of the property in question.

Under the said accounting rules and practices and under the accounting rules of the Department of Public Works of Washington, the plaintiff is required to charge this cost or expense to its operating expenses, except certain minor items charged initially to certain clearing accounts, in equal periodical increments during the useful life of the property, and this is done month by month. At the time that this charge is made to operating expenses a corresponding credit

is made to the account entitled "Reserve for Accrued Depreciation."

When a piece of property is discarded, this account "Reserve for [fol. 215] Accrued Depreciation" is charged with the difference between the cost of this property and the net salvage recovered from it. At the same time the proper fixed capital account is reduced by the amount of the original cost of the property in question.

This cost of rendering plaintiff's service is treated in the accounts in the same manner in which other cost items extending over a considerable period are treated. In the cases of taxes covering a year or interest covering a fixed period, or expenses of financing and bond discounts covering a number of years, the total expense is ascertained and is then charged to the operating expenses and credited to the account entitled "166—Taxes Accrued," or "167—Accrued Liabilities Not Due," as the case may be, against which account the payment when made is charged in a lump. In none of these cases is any specific reserve actually set aside.

While the depreciation account is entitled "Reserve for Accrued Depreciation," no reserve in the sense of a fund set aside for this specific purpose is maintained. The moneys taken out of earnings and represented by these charges to operating expenses and credits to this account go into the general funds of the plaintiff and find their way into property and plant owned by it so that as parts of its [fol. 216] investment are retired, they are replaced by other investments in a like amount and its capital is maintained unimpaired.

The factors which determine the amount which should be periodically charged to the operating expenses and credited to the account "Reserve for Accrued Depreciation" are the original cost of the property, the net salvage, the term of its useful life, and the co-efficient of safety which good business management requires in cases where expense items are to be met, the amount of which cannot be exactly known in advance. The original cost is readily and definitely ascertainable. What will be the useful life of any piece of telephone property and what will be the net salvage recovered upon the termination of this life, are factors looking to the future which must necessarily be based upon estimates founded upon the judgment of those educated in the business applied to the recorded experience of the company over a long series of years.

While the exact time when any specific piece of property will go out of use may not be accurately determinable, the average useful lives of the various classes of property are factors which may be fixed with substantial accuracy and this is true also as to the determi- [fol. 217] nation of the net salvage. These determinations should be reviewed from time to time and where there are changes in conditions or in the character of the plant which appears to be more than temporary so as to affect substantially these averages, corresponding adjustments should be made.

During the last six years it has been part of my duty to study continuously the facts bearing upon these factors of useful life and net salvage, for use as a basis for revision of charges to operating expenses and credits to accounts "Reserve for Ac-rued Depreciation" when changed conditions made the same proper. The last such revision

made effective the 1st day of August, 1919, produced a reduction in the composite rate previously in effect and applied to present depreciable property in the State of Washington from 6.23 per cent to 5.84 per cent.

That in the contract made between the Postmaster General and the plaintiff in connection with the federal possession, control and operation of the plaintiff's property during the year from August, 1918, to August, 1919, the comparable composite rate for the charges to operating expenses and clearing accounts and credits to the account "Reserve for Accrued Depreciation" was fixed at 5.72 per cent except [fol. 218] that the item of Right of Way, Account No. 207, was not included in this composite rate but was carried separately with a depreciation rate of 2.55 per cent. This item is small and would not materially affect the said figure of 5.72 per cent. This composite figure was applied to plaintiff's total depreciable property during the year of federal operation.

That upon the termination of federal operation on August 1, 1919, plaintiff put into effect the rates of depreciation shown below and these rates have been continued in effect up to this time:

Depreciation Rates in Effect Since August 1, 1919

212. Buildings	3.0
Cable, Aerial:	
242. Exchange	5.4
252. Toll	5.0
Cable, Underground:	
245. Exchange	3.0
255. Toll	2.8
Cable, Submarine:	
246. Exchange	8.0
256. Toll	8.0
221. Central Office Equipment	8.0
222. Other Equipment of C. O.	8.0
[fol. 219] Conduit, Underground:	
244. Exchange	2.7
254. Toll	2.0
261. Office Furniture and Fixtures	10.0
Pole Lines:	
241. Exchange	10.0
251. Toll	6.1

207.	Right of Way:	
	Exchange	2.55
	Toll	2.55
	Station Equipment:	
231.	Station Apparatus	8.0
232.	Station Installations	
233.	Interior Block Wires	
234.	Private Branch Exchanges	8.0
235.	Booths & Spl. Fittings	8.0
262.	General Shop Equipment	10.0
263.	General Store Equipment	10.0
264.	General Stable and Garage Equipment	20.0
265.	General Tools & Implements	20.0
	Wire, Aerial:	
243.	Exchange	10.0
253.	Toll	3.8

That the composite rate resulting from the application of the above specific rates to the depreciable property in the State of Washington was 5.70 per cent for the year 1920, 5.76 per cent for the year 1921, and 5.71 per cent for the year 1922.

[fol. 220] That under the regulations of the Interstate Commerce Commission plaintiff is required to file an annual report as of December 31st, showing, among other things, the composite rate of depreciation charged during the year. Plaintiff has so filed the composite rate so charged for each year.

That the amendment to Paragraph 5 of Section 20 of the Interstate Commerce Act, made by Section 435 of the Transportation Act, 1920, became effective on February 28, 1920, and that in the exercise of the authority vested in the Interstate Commerce Commission by said amendment to the Interstate Commerce Act, on March 18, 1920, it issued the following order:

"Interstate Commerce Commission, Washington

March 18, 1920.

To all carriers concerned:

"Section 435 of the Transportation Act, 1920, contains the following provision:

"'The Commission shall, as soon as practicable, prescribe for carriers subject to this Act, the classes of property for which depreciation charges may properly be included under operating expenses and the percentages of depreciation which shall be charged with respect to [fol. 221] each of such classes of property, classifying the carriers as it may deem proper for this purpose. The Commission may, when

it deems necessary, modify the classes and percentages so prescribed. The carriers subject to this Act shall not charge to operating expenses any depreciation charges on classes of property other than those prescribed by the Commission, or charge with respect to any class of property a percentage of depreciation other than that prescribed therefor by the Commission. No such carrier shall in any case include in any form under its operating or other expenses any depreciation or other charge or expenditure included elsewhere as a depreciation charge or otherwise under its operating or other expenses.'

"Information received by the Commission indicates the existence of doubt as to the propriety of carriers making any charges to operating expenses with respect to depreciation prior to such time as the Commission shall prescribe the specific percentages of depreciation which shall be charged.

"The purpose of this circular is to dispel any such doubt as may exist in the minds of accounting officers.

"Until the Commission shall otherwise order, all carriers subject to the Act to regulate commerce should continue to observe the requirements respecting the accounting for depreciation which are embodied in the effective accounting classifications prescribed by the Commission for the respective classes of carriers.

"George B. McGinty, Secretary."

[fol. 222] That in order to carry out the provisions of said Section 20, as amended, the Interstate Commerce Commission organized a subdivision of its bureau of accounts, which is designated as the depreciation section, with Mr. Frank S. Fowler as chief for the purpose of aiding the commission in carrying out the provisions of said section as amended.

That for over a year last past, the said depreciation section has been conducting an investigation of the subject, preliminary to public hearings, which the commission has indicated its purpose to hold with reference to this matter. In connection with this investigation Mr. Charles A. Heiss, Comptroller of the American Telephone and Telegraph Company, has been authorized to represent the Bell System companies, including the plaintiff, before the depreciation section.

That on January 6th, 1921, the said Mr. Fowler addressed to the said Mr. Heiss a letter, copy of which follows:

[fol. 223] "Interstate Commerce Commission, Bureau of Accounts

Washington

"January 6, 1921.

"Mr. Charles A. Heiss, Comptroller American Telephone & Telegraph Co., 195 Broadway, New York, New York.

DEAR SIR:

"Section 20 of the Interstate Commerce Act, as amended February 28, 1920, requires the Interstate Commerce Commission to prescribe for carriers subject to the Act, the classes of property for which

depreciation charges may properly be included under operating expenses and the percentages of depreciation which shall be charged with respect to each of such classes of property.

"For the purpose of carrying out these requirements a preliminary investigation of the depreciation question is being conducted to secure all information possible to formulate recommendations which will be made public and fully considered at public hearings before the Commission takes the final steps required by the act.

"In view of the magnitude of this subject and its paramount importance it is desired that all interested persons be given an opportunity to present their views and you are therefore requested to submit, with as little delay as possible, a statement or brief representing the opinion of your company with respect to the classes of depreciable property (by groups if practicable), the method of ascertaining [fol. 224] the service life and salvage value, the basis upon which depreciation charges should be accrued, the necessity for accruals, the relation of maintenance charges to depreciation and the manner in which the percentages of depreciation applicable to the several classes of property should be determined.

"It is also desired that you incorporate in the statement any suggestions or procedures which in your judgment will aid the Commission to reach a just and reasonable determination of the questions involved.

"It will be much appreciated if you will advise me of the approximate date of your statement may be expected.

"Yours very truly, Frank S. Fowler, Chief of Depreciation Section."

That in response to this letter, Mr. Heiss wrote Mr. Fowler, under date of March 24th, 1921, setting forth in behalf of the Bell System the view, opinions and suggestions endorsed by those companyies, responsible to the third and fourth paragraphs of the above letter.

That the rates put into effect on August 1, 1919, when the federal government surrendered the possession and control of plaintiff's property, as above set forth, have been maintained in effect pursuant to said order up to the present time.

[fol. 225] That under date of December 30, 1921, pursuant to the requirement of the Interstate Commerce Commission, plaintiff filed with said Commission the said specific rates of depreciation so put into effect on August 1, 1919.

That under date of March 10, 1923, the Interstate Commerce Commission issued an Order No. 14760, setting the date of May 1, 1923, at 10:00 A. M. at Washington, D. C., for the beginning of the presentation of evidence. That said Order had attached thereto a report of the preliminary investigation of depreciation charges of telephone companies and the conclusions and recommendations of the depreciation section for the regulation of such charges.

That in the meantime the plaintiff has been and is now co-operating with Mr. Heiss in an endeavor to furnish the data necessary to enable the Commission to prescribe, under the Act of Congress afore-

said, the classes of plaintiff's property for which depreciation charges may properly be included under operating expenses and the percentage of depreciation which shall thereafter be charged by the plaintiff with respect to each class of property.

[fol. 226] That the "Reserve for Accrued Depreciation" of the plaintiff company as of December 31, 1922, is accrued and accounted in common with respect to all its property in the States of Washington, Oregon, California and Idaho and is not more than sufficient for the telephone property that is owned and is being operated by the said company throughout its said territory, of which the property in Washington is an integral part.

That if the reserve could be divided among the states on the basis of plant values or cost that the resultant proportionate reserve for Washington is not more than sufficient for that property. If such a separation could be made a corresponding separation would neces-arily have to be made in other accounts and transactions of the Company. The financial results of the business in the State of Washington over the period of accumulation of the reserve have been such as to make impossible the accruing of any such proportion of the Company's Depreciation Reserve had Washington's proportion of the necessary interest and dividend payments been realized from the business in that State.

To compare the reserve for accrued depreciation with the amount [fol. 227] of physical depreciation existing in the plant, as the majority opinion undertakes to do, is to compare factors which are not comparable, for the reason that physical depreciation, commonly referred to as per cent condition, is a factor of present physical condition, and as such is but one of the many factors to be considered from the view point of current expense of depreciation, which is the problem of distributing the total amount there concurrently month by month over the life in service of the plant by a proper recognition in current expenses.

As heretofore pointed out, the so-called reserve here under discussion is in fact a debit account and not a source of current funds for this or any other purpose; and the resources indicated thereby are in fact among the general assets of the Company and to deny a current expense by recourse to these assets, which is the necessary result of carrying the order of majority of the Department into effect, is to compel the meeting of a current expense by a recourse to plaintiff's general assets and an arbitrary dissipation of plaintiff's assets in lieu of providing current rates sufficient to meet the current expense of depreciation.

That, in my judgment, a rate of depreciation of three and one-[fol. 228] half per cent is totally inadequate and insufficient to cover the expense of depreciation that is and will be experienced in the property in the State of Washington. That said rate of three and one-half per cent is stated by the majority order to be designed to decrease the amount of the reserve which is erroneous in principle in that it admittedly does not cover for the period in question the pro rata of the amount of depreciation actually to be experienced.

That from numerous studies and calculations I have never found from the actual experience of the company a rate in the aggregate of less than five and one-quarter per cent.

C. E. Fleager.

Subscribed and sworn to before me this 19th day of April, 1923. Frank L. Owen, Notary Public in and for the City and County of San Francisco, State of Calif. (Notarial Seal.)

[File endorsement omitted.]

[fol. 229] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

AFFIDAVIT OF P. H. COOLIDGE—Filed Apr. 24, 1923

STATE OF CALIFORNIA,
City and County of San Francisco, ss:

P. H. Coolidge, being first duly sworn, deposes and says: That he is a graduate of the Massachusetts Institute of Technology in the class of 1894. That he has been employed by the Pacific Telephone and Telegraph Company since August 1, 1909, and prior to that time, from 1897, was employed by the Western Electric Company, and [fol. 230] that he has had more than twenty-five years' experience in the telephone business.

That since August 1, 1911, he has been General Commercial Superintendent of The Pacific Telephone and Telegraph Company, in which position he has charge and supervision of the making of schedules of rates for that company and the preparation of studies in relation thereto, including studies of the effect of rates on the revenue of the company. That he is familiar with all the rates and charges which are made by The Pacific Telephone and Telegraph Company for telephone service and facilities furnished by that company and with the schedules of such rates which are now and have been from time to time filed by that company with the Department of Public Works of Washington and its predecessors, the Public Service Commission of Washington, and with the various changes in rates, so filed, which have from time to time been made. That the exchange rates which The Pacific Telephone and Telegraph Company now has in effect for telephone service in the State of Washington, including Seattle and Tacoma, have been continuously in effect since March 1, 1919, and that the toll rates now in effect have been continuously in effect since January 21, 1919.

[fol. 231] That he is familiar with the order of the Department of

Public Works of Washington, dated March 31, 1923, signed by two members of said Department, and also with the order made on the same date, signed by the third member of said Department.

That he has made a careful estimate of the revenue which will be derived by The Pacific Telephone and Telgraph Company in the State of Washington (not including Spokane) for the year 1923, in the event that the rates, both toll and exchange, now and since 1919 in effect shall continue in effect throughout said year, taking into consideration the probable growth in the number of telephones which will be experienced and the growth in the toll business. That he has made a similar estimate for the year 1923 of the revenue which will be experienced by The Pacific Telephone and Telegraph Company and derived from its Seattle and Tacoma Exchanges, in the event that said rates now and since 1919 in effect shall continue in effect throughout the year 1923. That as a result of this estimate, in his opinion, the revenue of The Pacific Telephone and Telegraph Company for the State of Washington (not including Spokane), which will be derived under the present rates for the year 1923, will [fol. 232] be the sum of $8,068,071.20 and the revenue which will be derived for the same period and under existing rates for Seattle will be the sum of $3,806,034.50, and for Tacoma will be the sum of $893,660.20.

That he has also made an estimate of the effect on the revenues of The Pacific Telephone and Telegraph Company in the State of Washington (not including Spokane) and for Seattle and Tacoma for the year 1923, if the rates, both toll and exchange, fixed in the minority order of March 31, 1923, were in effect throughout said year; and from this estimate has determined that, if the rates, both toll and exchange, fixed in the minority order of March 31, 1923, were in effect for the year 1923, the revenue of The Pacific Telephone and Telegraph Company from its business in the State of Washington (not including Spokane) for that year would be the sum of $9,237,391.24, and for Seattle $4,539,284.45, and for Tacoma, $1,016,801.90. That, in his opinion, the return to the Pacific Company, even under the minority rates, while greater than under the rates now and since 1919 in effect, would be less than sufficient and less than the return to which the Pacific Company is entitled upon its property used and useful in rendering telephone service therein, and that the service to be had by subscribers under those rates [fol. 233] would be worth more to them than the charges therefor.

That he has had a long experience in making estimates of the amount of revenue to be derived under different schedules of rates for varying periods in the future, and it has been his experience that estimates so made by him approximate closely the results actually experienced. That, in his opinion, the estimates made by him for the State of Washington (not including Spokane), for Seattle and Tacoma for the year 1923, under the two schedules of rates as hereinabove set forth, are substantially correct and that the results actually experienced or to be experienced thereunder would not vary to any material extent from the said estimates.

P. H. Coolidge.

Subscribed and sworn to before me this 19th day of April, 1923. Frank L. Owen, Notary Public in and for the City and County of San Francisco, State of Calif. (Notarial Seal.)

[File endorsement omitted.]

[fol. 234] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

AFFIDAVIT OF HENRY L. GRAY—Filed Apr. 24, 1923

STATE OF WASHINGTON,
County of King, ss:

I, Henry L. Gray, being first duly sworn, depose and say:

My age is forty-two years. I was educated at the University of Missouri. I reside at Seattle, Washington, where I maintain an office at 840 Henery Building, from which I engage in the prac-[fol. 235] tice of civil and electrical engineering specializing in the valuation of public utility properties; in rate and service investigations and reports on public utilities for investment houses. My engineering training and experience extend over a period of approximately twenty-four years. My preliminary training was acquired in connection with telephone and railroad construction. For the past sixteen years, I have continuously engaged in work involving valuations of properties of public service corporations, a general outline of such work being as follows:

In 1906, I was employed by the Railroad Commission of Washington as Assistant Engineer in connection with the valuation of railways then being conducted by that state. In 1908, I became Chief Engineer; and in 1911, and through a change of name of the regulatory body, I became Chief Engineer of the Public Service Commission of Washington, and continued in that capacity until February 1, 1913. My work with the Railroad Commission and Public Service Commission of Washington consisted to a large extent of the valuation of public utility properties of all kinds, including telephone properties, and in public utility rate and service investigations.

[fol. 236] On February 1, 1913, I opened my office in Seattle as a consulting engineer, specializing in public utility work; and since that date my work has consisted practically altogether of valuations and rate and service investigations for public utilities, municipalities and regulatory bodies, and in the preparation of reports on existing and proposed public utility projects for investment houses. My work as engineer in private practice has called for a close study of

the subject of the valuation of public utility properties, and has required my appearance in valuation and rate cases before the regulatory bodies of Washington, Oregon, Idaho, California and Illinois, as well as before special commissions in Canada.

In my work, since 1906, I have appraised sixty-three different public utility properties. In the case of nine of these properties, I acted as principal assistant to the engineer in charge; while in the case of the remaining fifty-four properties, which represented an investment of more than Five Hundred Million Dollars ($500,000,000), I was engineer in charge of all work. Of these fifty-four properties, ten were telephone systems, consisting of the plant of the Independent Telephone Company of Seattle, the plants of the Northwest Tele- [fol. 237] phone Company in Snohomish County, Washington, and the plants owned by The Pacific Telephone and Telegraph Company in Seattle, Spokane, Tacoma, Everett, Bellingham, Centralia, Olympia and Bremerton, all in the State of Washington. In addition, I have been connected in a consulting capacity with a number of other appraisals, generally for the purpose of appraising some particular class of property, or investigating some particular feature of the case. I am familiar with the methods employed by experts, commissions and courts in arriving at the values of public utilities, and with the general trend of labor and material costs.

Since May 1, 1922, I have been continually engaged in an examination of the property and affairs of The Pacific Telephone and Telegraph Company within the State of Washington, and in a determination of the value of the property devoted to public use by such company in that state. As the result of this investigation, I am convinced that the value of such property (excluding Spokane) on the 31st day of December, 1922, was in excess of Thirty-five Million Two Hundred Fifty Thousand Dollars ($35,250,000.00). My reasons for this conclusion are as follows:

[fol. 238] The value of the property in question will be represented by its reasonable reproduction cost, less accrued depreciation, plus a fair allowance for what is ordinarily known as going value. Due to the sudden and unprecedented increase in construction costs following the beginning of the World War, and to the possibility that such high prices may continue for a considerable period, it is admittedly difficult to arrive at what might be called a reasonable reproduction cost. Diagrams "A" and "B" attached hereto show that during the period from the end of the panic, in 1896, to about the beginning of the year 1915, there was a steady and almost uniform increase in the costs of labor and materials, as evidenced by the Wholesale Commodity Price Index Numbers, computed and published by the United States Bureau of Labor Statistics. But following the year 1915, there was a heavy increase in labor and material costs, the peak of such costs being reached about the middle of the year 1920. Following this peak, there was a marked decline in prices, which continued until about the beginning of the year 1922; but since the early part of that year, there has been a general increase in wholesale commodity prices and a very substantial

increase in the costs of labor and materials entering into construction. [fol. 239] On April 1, 1923, the average cost of construction labor and materials was approximately thirty per cent higher than the corresponding costs of April, 1922, and were only twenty-two per cent less than the peak costs of 1920. The present trend of prices is decidedly upward, and this condition has existed for more than a year. It is impossible to predict to what extent this increase will continue, but at the present time there is no indication of any recession in construction or maintenance costs. On the contrary, all of the data available indicates a still further increase in such costs, as labor costs in general are advancing. It is difficult to abandon the idea that present-day costs eventually will recede, but as to when this will occur, no one can say; and it is generally conceded that a new price level has been established and that construction costs never again will reach pre-war levels. Under the circumstances as recited, the difficulties of arriving at what might be termed "a reasonable reproduction cost" are obvious.

The reproduction cost of the property in question, as of June 30, 1922, less accrued depreciation, and plus a reasonable allowance for going value, was stated by The Pacific Telephone and Telegraph Company to be Forty-two Million Eight Hundred Forty-five Thou- [fol. 240] sand One Hundred Eighty-nine Dollars ($42,845,189). I have made a study of this reproduction cost estimate, of the going value calculation and of the accrued depreciation in question, and am convinced that the above amount, or $42,845,189, stated by The Pacific Telephone and Telegraph Company to represent the reproduction cost of its property within the State of Washington (excluding Spokane) as of June 30, 1922, less accrued depreciation and plus going value, is reasonable, fair and conservative. This, if added to the cost of additions to the property of the said company within the State of Washington between the dates of June 30, 1922, and December 31, 1922, which I find to have been $1,116,896.00, would give a resulting reproduction cost less depreciation plus going value, as of the latter date, of $43,962,085.00. In the absence of any unusual conditions, this might be considered to be the fair value of the property in question.

It is my opinion that in fixing value, the possibility of an ultimate recession in prices must be taken into consideration; and that to base the value of a property solely upon labor and material costs of the present would be unwise; and that in arriving at such value the [fol. 241] construction costs of the present would be unwise; and that in arriving at such value the construction costs of the present should be discounted to some extent—and the determination of the proper discount is the problem.

Diagram "B" attached hereto shows the general similarity of the graphs of Wholesale Commodity Price Indices, during the years 1914 to 1923, inclusive, as computed and published by the Bureau of Labor Statistics, and the corresponding Construction Cost Indices computed and published by the Engineering News-Record. Diagram it is apparent that had the World War not occurred, that prices indices during the period from 1890 to 1923; and from this dia-

gram it is apparent that had the World War not occurred, that prices might have been expected to follow the general upward trend indicated by the Trend Grade Line from the end of the panic in 1896 to the beginning of the year 1915; and that therefore on June 30, 1922, commodity prices in general would have been approximately thirty-eight points or twenty-four per cent less than the corresponding prices actually prevailing upon that date.

Applying a reduction factor of twenty-four per cent to the reproduction cost less depreciation of the property in question as of June 30, 1922, and adding a reasonable allowance for going value, [fol. 242] would result in a total of $34,137,400.00, which, when there is added thereto the cost of additions to the property of the said company within the State of Washington (excluding Spokane) during the last six months of the year 1922, or $1,116,896.00, will give a total of $35,254,296.00. Therefore I believe that the fair value of the property in question, or that owned within the State of Washington (excluding Spokane) and used for the public convenience by The Pacific Telephone and Telegraph Company on December 31, 1922, is in excess of $35,250,000.00.

Henry L. Gray.

Subscribed and sworn to before me this 23rd day of April, 1923. J. E. Peterson, Notary Public in and for the State of Washington, Residing at Seattle. (Notarial Seal.)

[File endorsement omitted.]

(Here follow Diagrams A and B, marked side folio pages 243 and 244)

[fol. 245] In the District Court of the United States for the Western District of Washington, Southern Division

[Title omitted]

Affidavit of Ralph H. Macmichael—Filed Apr. 24, 1923

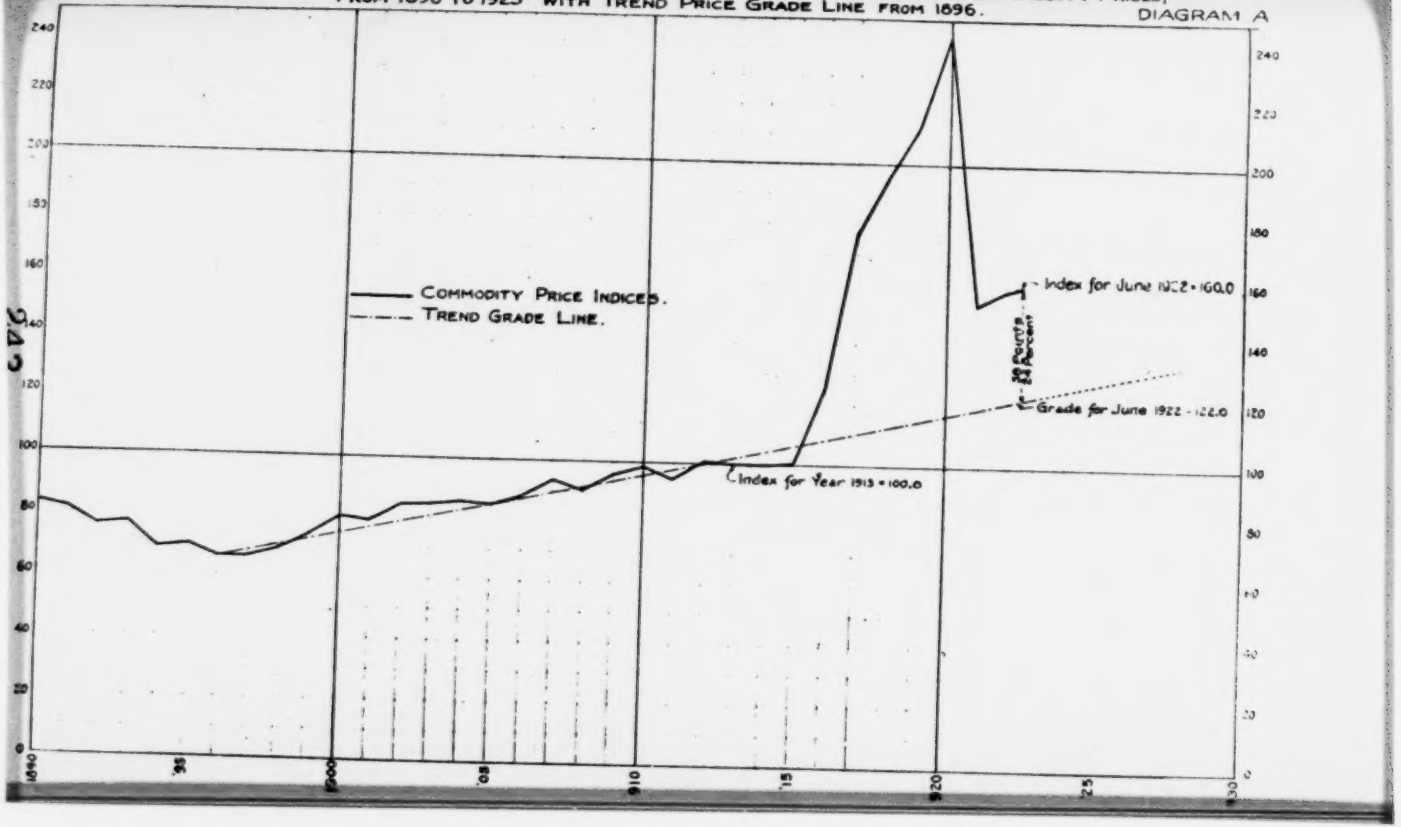
State of Washington,
County of King, ss:

Ralph H. Macmichael, being first duly sworn, says that he resides at East Seattle, Washington; that he has been engaged in the banking business for more than twenty years; that he is Vice President of the Dexter Horton National Bank of Seattle, with which institution he has been connected for more than ten years, and that during [fol. 246] this time he has been directly in charge of the Bond Department of said bank, which deals in investment securities of the classes offered to what are known in banking circles as the conservative investor, and that a very large part of this business con-

GRAPH SHOWING AVERAGE YEARLY INDICES (OLD NUMBER) OF WHOLESALE COMMODITY PRICES

GRAPH SHOWING AVERAGE YEARLY INDICES (OLD NUMBERS) OF WHOLESALE COMMODITY PRICES, FROM 1890 TO 1923 WITH TREND PRICE GRADE LINE FROM 1896.

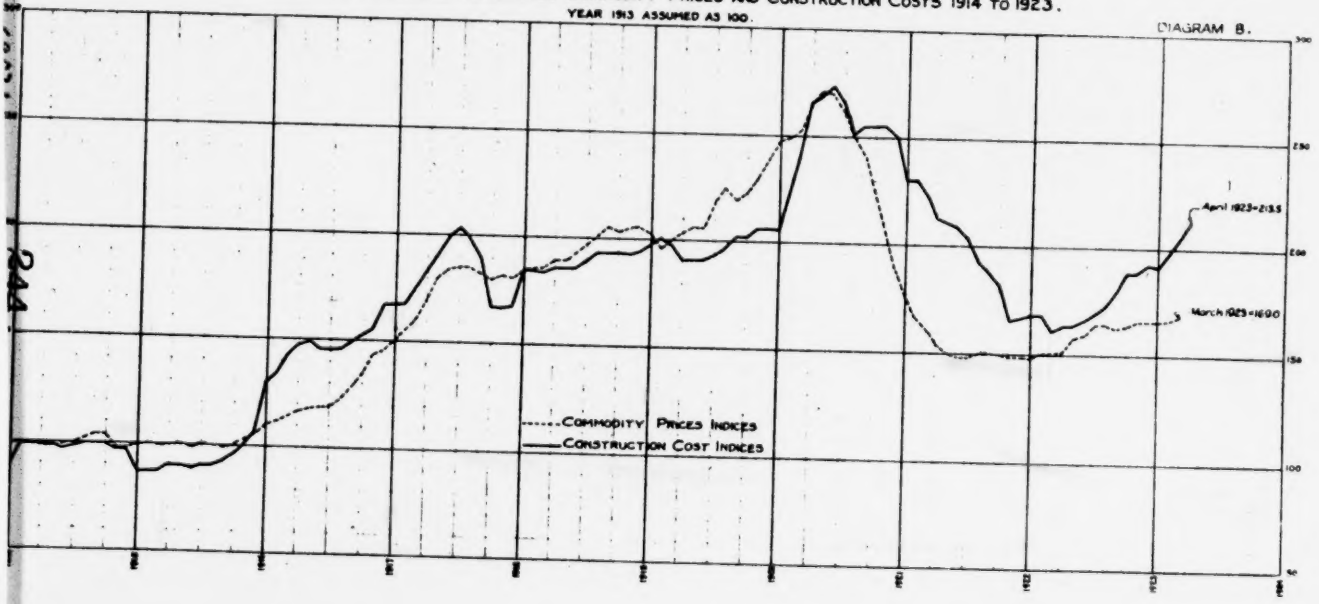
DIAGRAM A



GRAPHIC COMPARISON OF WHOLESALE COMMODITY PRICES AND CONSTRUCTION COSTS 1914 TO 1923.

YEAR 1913 ASSUMED AS 100.

DIAGRAM B.





sists in the handling of public utility securities; that the handling of such securities necessitates constant investigations into the operations, properties, earnings and securities of electric, gas, telephone, street railway and other public utilities.

That it is the opinion of the deponent that a public utility such as the plaintiff should earn an annual return of not less than eight (8) per cent (after providing for depreciation) upon the fair and reasonable value of its property used or useful in the rendition of its service in order to place its securities upon a parity with other investments competing for funds in the market.

That in order to make the securities of a public utility saleable, it is necessary that public confidence in such securities be established and maintained. The investors must have reasonable assurance of the integrity of the investment and the safety of their money, and must be afforded a return at least equal to the returns which they [fol. 247] could obtain through other available investments of similar desirability.

That the cost to public utilities of borrowed money, where the loans are adequately secured and where there is a fixed obligation to return the money borrowed at a definite date is obviously less than the fair return necessary to induce the investment of funds that are to be invested at the risk of the business. That the cost of borrowed money to public utilities during the last three years has run as high as ten (10) per cent for short term loans and has averaged well over six (6) per cent for long time money. That at present such corporations cannot obtain money on long time loans, even though adequately secured at less than an average cost of close to six (6) per cent. That prudence and conservatism dictate that only a proportion of the capital requirements of such corporations should raised by the sale of bonds or other loans. That it is fundamental that public utilities which expect to continue permanently in business and which are required continuously to increase their investments in order to meet the public service requirements imposed upon them, must have a market for their stocks, and their stocks are not salable to investors [fol. 248] unless it can be demonstrated that the company offering such stocks is earning and will continue to earn at least a reasonable return upon the value of its property devoted to the public use. That there is active competition among utility corporations, industries and other businesses for the surplus funds which are at any time available for new investments, and plaintiff, like the others, is compelled to meet this competition and to offer inducements to investors equal to those offered by others at the same time.

Ralph H. Macmichael.

Subscribed and sworn to before me this 23rd day of April, 1923. Maurice R. McMicken, Notary Public in and for the State of Washington, Residing at Seattle. (Notarial Seal.)

[File endorsement omitted.]

[fol. 249] IN UNITED STATES DISTRICT COURT

AFFIDAVIT OF W. J. PHILLIPS—Filed Apr. 30, 1923

STATE OF WASHINGTON,
County of King, ss:

I, W. J. Phillips, being first duly sworn, depose and say: That I am Division Commercial Superintendent of the plaintiff, The Pacific Telephone and Telegraph Company, and reside at Seattle, Washington; that I have been continuously employed by the plaintiff company and its predecessors for twenty-five (25) years; that since 1900 I have held my present position, or a similar position, in other sections of the company's territory;

That I have examined the records of the company and find that during the five months ending March 31, 1923, there were in the Seattle Exchange three thousand four hundred ninety-two (3,492) telephone stations disconnected for all reasons, an average of six hundred ninety-eight (698) per month; that in the Tacoma Exchange during the five months ending March 31, 1923, there were nine hundred ninety-eight (998) telephone stations disconnected for all reasons, which is an average of two hundred (200) per month; that the number of subscribers represented by these disconnected stations is available only after a lengthy analysis, but the number of subscribers is only slightly less than the number of stations.

That in the Seattle Exchange, as stated in the affidavit of Mr. J. C. Nowell, there are more than fifty-six thousand (56,000) subscribers; that of these 56,000 subscribers 24,726 are four-party residence subscribers, and 19,124 are individuals and two-party residence subscribers.

That in the Tacoma Exchange, as stated in the affidavit of Mr. J. C. Nowell, there are more than sixteen thousand (16,000) sub-
[fol. 250] scribers; that of these 16,000 subscribers 12,255 are two-party and four-party residence subscribers, and 801 are individual residence subscribers.

That during the year 1922 there was collected for long distance toll messages at the Seattle Exchange a sum in excess of forty-two thousand dollars ($42,000) from hotels. This sum is made up of many messages from 10 cents in price upward; that the particular person making the call is frequently unknown to the plaintiff company owing to the semi-public and public nature of these telephones; that there are in addition other telephones of a public and semi-public nature from which substantial sums of money are collected under the same circumstances; that if increased rates are not granted, it will be practically impossible to recover the difference between the present charge and a higher charge should it be deemed proper to recover it at a later date.

That during the year 1922 there was collected for long distance toll messages at the Tacoma Exchange, a sum in excess of eleven Thousand dollars ($11,000) from hotels. This sum is made up of many messages from 10 cents in price upward; that the particular

person making the call is frequently unknown to the plaintiff company owing to the semi-public and public nature of these telephones; that there are in addition other telephones of a public and semi-public nature from which substantial sums of money are collected under the same circumstances; that if increased rates are not granted, it will be practically impossible to recover the difference between the [fol. 251] present charge and a higher charge, would it be deemed proper to recover it at a later date.

W. J. Phillips.

Subscribed and sworn to before me this 30th day of April, 1923. Maurice R. McMicken, Notary Public in and for the State of Washington, Residing at Seattle. (Seal of Notary.)

[File endorsement omitted.]

[fol. 252] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

MOTION TO DISMISS—Filed Apr. 30, 1923

Come now the defendants E. V. Kuykendall, as Director of Public Works of Washington, Hance H. Cleland, as Supervisor of Public Utilities of Washington and Frank R. Spinning, as Supervisor of Transportation of Washington, the persons constituting the Department of Public Works of the State of Washington, and John H. Dunbar, Attorney General of the State of Washington, and each of them, and move the court to dismiss the bill of complaint filed herein for the reasons and upon the grounds that as appears upon the face thereof

I. Said bill of complaint does not state any matters of equity entitling the complainant to the relief prayed for.

II. Said bill of complaint does not state facts sufficient to entitle complainant to any relief against these defendants.

Wherefore defendants and each of them pray the judgment of this court whether they shall further answer, and that they be dismissed [fol. 253] with their costs.

John H. Dunbar, Attorney General; Raymond W. Clifford, Assistant Attorney General, Solicitors for Defendants.

[File endorsement omitted.]

[fol. 254] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

MOTION TO DISSOLVE TEMPORARY RESTRAINING ORDER

Come now the defendants E. V. Kuykendall, as Director of Public Works of Washington, Hance H. Cleland, as Supervisor of Public Utilities of Washington and Frank R. Spinning, as Supervisor of Transportation of Washington, the persons constituting the Department of Public Works of the State of Washington, and John H. Dunbar, Attorney General of the State of Washington, and each of them, and move the court for an order denying the application for an interlocutory injunction and declaring said restraining order to be void from its inception, and in the alternative, to dissolve said restraining order.

This motion is based on the files and records in the above entitled case, and upon the affidavit of E. V. Kuykendall, hereto attached.

John H. Dunbar, Attorney General; Raymond W. Clifford, Assistant Attorney General, Solicitors for Defendants.

[fol. 255] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

AFFIDAVIT OF E. V. KUYKENDALL—Filed Apr. 30, 1923

STATE OF WASHINGTON,
County of Thurston, ss:

E. V. Kuykendall, being first duly sworn, on oath deposes and says:

That he is one of the defendants named in the above entitled proceeding; that he is now and has been for more than three years last past the duly appointed, qualified and acting Director of the Department of Public Works of said state, and as such charged with the duty of administering the provisions of the "Public Service Commission Law" of said state and the acts amendatory thereof and supplementary thereto. That, during the incumbency of affiant as Director for said Department of Public Works, he has conducted, as provided by law, a large number of investigations involving the properties, rates and service of public utilities operating within the said state, and, in particular, of telephone companies, including plaintiff. That prior to his incumbency, the Public Service Commission of [fol. 256] Washington, predecessor of the Department of Public

Works of Washington, had conducted, as by law provided, a large number of investigations of the properties, rates and service of utilities generally and telephone companies operating within the said State. That these investigations have resulted in the accumulation of a large amount of date involving every feature of the construction, operation and maintenance of telephone properties within said state, and this data has at all times been available and has been used by the affiant and the staff working with him in the employ of the state of Washington for examination and comparison in investigations of the sort herein involved, and in particular with respect to the investigation which is the subject of this action. That the record made before defendants in the proceeding which is the subject of this action consists of 1,438 typewritten pages of testimony and some sixty exhibits, many of the latter being voluminous and containing technical calculations, all of which were given careful consideration.

That affiant has examined and is familiar with the bill of complaint and exhibits, and the affidavits in support of the bill of complaint, filed herein. That there is now and was at the time of the hearing before the Department of Public Works herein substantial agreement between the experts, engineers and accountants in the employ of the state of Washington and acting under the direction of affiant and the experts, engineers and accountants testifying for the plaintiff herein, with the following exceptions:

(a) Treatment of expense of depreciation;

(b) Treatment of compensation paid to the American Telephone and Telegraph Company.

[fol. 257] That the amount of the expense items above designated as (a) and (b) have a controlling effect upon the rate of return shown in any statement prepared to reflect the result of plaintiff's operations.

There are two general methods of determining the amount which should be charged to operating expenses on account of depreciation. One of these methods may be referred to as the "life table method." It is the method which has been used by plaintiff, and has resulted in the accrual of a balance in its "reserve for accrued depreciation" which amounts to approximately twenty-seven percent of the original cost of its depreciable property. Stated briefly, the application of the life table methods is substantially as follows:

A given group of plant units is found to have an average life in service of ten years, with no salvage value. It therefore follows, under a computation made on this basis, that the average annual rate of depreciation will be ten per cent. The amount obtained by application of this percentage is set aside annually in the depreciation reserve in order that when the property reaches the end of its useful life there may be in the reserve an amount equal to its original cost. This method inevitably results in building up a credit balance in reserve for the reason that, in a constantly growing plant, the annual retirements will not equal the annual credits to the reserve account.

The affidavit of one C. E. Fleager, on file herein, states in part as follows:

"The factors which determine the amount which should be periodically charged to the operating expenses and credited to the account 'reserve for accrued depreciation' are the original cost of the property, the net salvage, the term of its useful life, and the coefficient [fol. 258] of safety which good business management requires in cases where expense items are to be met, the amount of which cannot be exactly known in advance."

The Uniform System of Accounts, prescribed by the Interstate Commerce Commission for telephone companies and adopted by defendants for the keeping of accounts of companies such as plaintiff, provides as follows (p. 67):

"Depreciation of Plant and Equipment.—Telephone companies should include in operating expenses depreciation charges for the purpose of creating proper and adequate reserves to cover the expenses of depreciation currently accruing in the tangible fixed capital. By expense of depreciation is meant

"(a) The losses suffered through the current lessening in value of tangible property from wear and tear (not covered by current repairs).

"(b) Obsolescence or inadequacy resulting from age, physical change, or supersession by reason of new inventions and discoveries, changes in popular demand, or public requirements, and

"(c) Losses suffered through destruction of property by extraordinary casualties."

The classification of accounts duly and regularly promulgated by the defendants in compliance with law, and in which form plaintiff is required to keep its accounts, does not provide as an element of the expense of depreciation "a coefficient of safety which good business management requires in cases where expense items are to be met, the amount of which can not be exactly known in advance," nor is such an item of depreciation expense properly allowable.

The second method of determining expense of depreciation may be designated the "retirement method." In the application of this method a period of years of the past operations of the property is analyzed to determine the original cost of those items of the plant which have had to be replaced. The sum of these retirements for the period analyzed is divided by the number of years in the period, which gives an average annual retirement in dollars, that is to say, the actual average annual necessities of the utility in providing for re- [fol. 259] tirement of its property over the period analyzed is thus ascertained. This actual experienced expense, when related to the average plant value for the period, gives a depreciation percentage which, in a growing plant, is uniformly less than the annual percentage obtained by applying the life table method. Under the retirement method, the reserve, if it exists at all, is very small in its relation to the plant value.

Affiant states that the record made before defendants indicates that the rate for depreciation which plaintiff has heretofore used was too large and its application has resulted in the accrual of a reserve which is larger than the plaintiff's necessities require and is in ex-

cess of the amount the rate payer should be required to provide to cover expense of depreciation. Affiant further says that from the record made before defendants it appears that the property being currently installed by plaintiff is in large part property of longer life, and hence less rapidly depreciable, than the property heretofore installed; that, in view of this fact and the size of the depreciation reserve, as computed by plaintiff, and the necessary result of the calculation of the expense of depreciation resulting from the application of the method employed by plaintiff, a reduction in the rate of allowance for depreciation expense employed by plaintiff should be made for a period of two years in the future, and that such new rate of depreciation as set forth in the order herein is both reasonable and proper and subject to such future readjustment as the facts may warrant. The effect of this reduction over a period of two years will be to diminish the percentage relation of the depreciation reserve to the cost of the depreciable plant. After proper relation of the depreciation reserve to the cost of the depreciable plant has been once established, the charge to operating expenses on account of [fol. 260] depreciation can be more accurately determined.

Affiant says that in the bill of complaint filed herein there are certain allegations, and, in the supporting affidavits also filed herein, there are certain statements regarding the "cost of property," "book cost of property," "cost of reproduction" and "present fair value" of the properties of plaintiff. That neither in the bill of complaint nor in the supporting affidavits are the details and component figures of these various costs and values set forth, nor are the relation or comparison of these figures, costs and values to the rate base employed by affiant herein set forth. That in the entry of the order herein a rate base was determined by taking the original valuation of the properties of plaintiff as found prior to the instant proceeding before the defendants and adding thereto the net additions and beeterments up to the time of the inquiry. That the original valuation of these properties was unreviewed under the provisions of the Public Service Commission Law and has long since become conclusive. That the determination of the rate base by adding to the original valuation the net additions and betterments up to the date of the inquiry is the method of rate base determination provided by law in this case.

That affiant has read and is familiar with the contents of an affidavit of one C. S. Cassassa, filed herein. That said affidavit contains income statements for the years 1919, 1920, 1921 and 1922, showing the percent net revenue claimed to have been earned by plaintiff from its operations during said years. That affiant has caused these income statements to be changed in two respects and presents the results herewith. That said changes consist in (a) changing the amount of depreciation and amortization allowance to [fol. 261] an allowance of three and one-half percentum in accordance with the findings of fact made by the affiant herein, and (b) changing the amount of the allowance to the American Telephone and Telegraph Company under the so-called four and one-half per centum contract to an allowance of ninety cents per station in accordance with the findings of fact of the affiant herein.

[fol. 262] State of Washington

1919

Average Cost of Property

Total	$17,718,176	(unchanged)

Telephone Revenues

Total	$5,689,247	(unchanged)

(a) Telephone Expenses

Total	$4,809,035	(unchanged)
Reduction in Allowance for depreciation and amortization	331,444	
Total Telephone Expenses (Revised)	$4,477,591	
Net Telephone Revenues	$1,211,656	
Per cent. Net Revenues	6.84%	

(b) Telephone Expenses

Total	$4,809,035	(unchanged)
Reduction in Allowance for Licensee Con. Exps.	129,911	
Total Telephone Expenses (Revised)	$4,679,124	
Net Telephone Revenues	$1,010,123	
Per cent. Net Revenues	5.70%	

(c) Telephone Expenses

Total	$4,809,035	(unchanged)
Reduction in Allowance for Deprec. and and Amort. and Licensee Con. Exps.	461,355	
Total Telephone Expenses (Revised)	$4,347,680	
Net Telephone Revenues	$1,341,567	
Per cent. Net Revenues	7.57%	

[fol. 263] State of Washington

1920

Average Cost of Property

Total	$19,168,206	(unchanged)

Telephone Revenues

Total	6,655,979	(unchanged)

(a) Telephone Expenses

Total	5,809,239	(unchanged)
Reduction in Allowance for Depreciation and Amortization	336,765	
Total Telephone Expenses, (Revised)	$5,472,474	
Net Telephone Revenues	$1,183,505	
Per cent. Net Revenues	6.17%	

(b) Telephone Expenses

Total	$5,809,239	(unchanged)
Reduction in allowance for Licensee Con. Exps.	168,059	
Total Telephone Expenses (Revised)	$5,641,180	
Net Telephone Revenues	$1,014,799	
Per cent. Net Revenues	5.29%	

(c) Telephone Expenses

Total	$5,809,239	(unchanged)
Reduction in Allowance for Deprec. and Amort. and Licensee Con. Exps.	504,824	
Total Telephone Expenses (Revised	$5,304,415	
Net Telephone Revenues	$1,351,564	
Percent. Net Revenues	7.05%	

[fol. 264] State of Washington

1921

Average Cost of Property

Total	$22,319,826	(unchanged)

Telephone Revenues

Total	6,933,321	(unchanged)

(a) Telephone Expenses

Total	$6,190,719	(unchanged)
Reduction in Allowance for Depreciation and Amortization	357,409	
Total Telephone Expenses (Revised)	$5,833,310	
Net Telephone Revenues	$1,100,011	
Per cent. Net Revenues	4.88%	

(b) Telephone Expenses

Total	$6,190,719	(unchanged)
Reduction in Allowance for Licensee Con. Exps.	173,647	
Total Telephone Expenses (Revised)	$6,017,072	
Net Telephone Revenues	$916,249	
Per cent. Net Revenues	4.07%	

(c) Telephone Expenses

Total	$6,190,719	(unchanged)
Reduction in Allowance for Deprec. & Amort. and Licensee Con. Exps.	531,056	
Total Telephone Expenses (Revised)	$5,659,663	
Net Telephone Revenues	$1,273,658	
Per cent. Net Revenues	5.66%	

[fol. 265] State of Washington

1922

Average Cost of Property

Total	$27,152,722	(unchanged)

Telephone Revenues

Total	$7,376,120	(unchanged)

(a) Telephone Expenses

Total	$6,514,553	(unchanged)
Reduction in Allowance for Depreciation & Amortization	347,536	
Total Telephone Expenses (Revised)	$6,167,017	
Net telephone revenues	$1,209,103	
Per cent. Net Revenues	4.45%	

(b) Telephone Expenses

Total	$6,514,553	(unchanged)
Reduction in Allowance for Licensee Con. Exps.	184,445	
Total Telephone Expenses (Revised)	$6,330,108	
Net Telephone Revenues	$1,046,012	
Per Cent. Net Revenues	3.85%	

(c) Telephone Expenses

Total	$6,514,553	(unchanged)
Reduction in Allowance for Deprec. & Amort. and Licensee Con. Exps.	531,981	
Total Telephone Expenses (Revised)	$5,982,572	
Net Telephone Revenues	1,393,548	
Per cent. Net Revenues	5.13%	

[fol. 266] The controversial matters are the two items of expense, (1) depreciation, (2) compensation to the American Telephone and Telegraph Company under the licensee contract. Defendants have reduced the annual depreciation charge for a period of two years to three and one-half per centum and have fixed the compensation under the said contract at ninety cents per station instead of four and one-half per centum of the gross operating revenue. Such action is not capricious or confiscatory but is fully warranted by the facts.

Further than this deponent saith not, save that this affidavit is made in support of a motion to dissolve the temporary restraining order heretofore issued herein.

E. V. Kuykendall.

Subscribed and sworn to before me this twenty-eighth day of April, 1923. J. H. Brown, Notary Public in and for the State of Washington, Residing at Olympia.

[File endorsement omitted.]

[fol. 267] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

MOTION TO STAY

Come now the defendants still relying upon their motion to dissolve the temporary restraining order, and denying the application for an interlocutory injunction, and move the court for a stay in the above entitled action pending the final determination of a suit which has been instituted in the superior court of the state of Washington for Thurston county, having jurisdiction thereof under the laws of the state, to enforce the order enjoined in the above entitled case, which suit is accompanied by a stay in such state court of the proceedings under such order pending the determination of such suit by such state court.

This motion is based on the files and records in the above entitled case, and upon the affidavit of E. V. Kuykendall, hereto attached.

John H. Dunbar, Attorney General; Raymond W. Clifford, Assistant Attorney General, Solicitors for Defendants. T. J. L. Kennedy, P. C. Sullivan, Alex Winston, James M. Geraghty, Of Counsel.

[fol. 268] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

AFFIDAVIT OF E. V. KUYKENDALL—Filed Apr. 30, 1923

STATE OF WASHINGTON,
County of Thurston, ss:

E. V. Kuykendall, being first duly sworn, on oath deposes and says: That he is the duly appointed, qualified and acting Director of Public Works of the State of Washington, and one of the defendants in the above entitled action; that an action has been instituted in the superior court of the state of Washington for Thurston county and served upon him, the pleadings in such action being in words and figures as follows: to-wit:

[fol. 269] EXHIBIT TO KUYKENDALL'S AFFIDAVIT

IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON FOR THURSTON COUNTY

No. 8972

THE STATE OF WASHINGTON ex Rel. THE CITY OF SEATTLE, a Municipal Corporation, Petitioner and Relator,

v.

E. V. KUYKENDALL, as Director of Public Works; HANCE H. Cleland, as Supervisor of Public Utilities, and Frank R. Spinning, as Supervisor of Transportation, of the State of Washington, the Persons Constituting That Portion of the Department of Public Works of Washington Exercising Jurisdiction in the Division of Public Utilities under the "Public Service Commission Law," and The Pacific Telephone and Telegraph Company, a Corporation, Respondents

MOTION FOR WRIT OF REVIEW

Comes now the above named petitioner and relator and moves the court for an order for a writ of review directed to E. V. Kuykendall, as Director of Public Works, Hance H. Cleland, as Supervisor of Public Utilities, and Frank R. Spinning, as Supervisor of Transportation, of the State of Washington, the persons constituting that portion of the Department of Public Works of Washington exercising jurisdiction in the division of Public Utilities under the "Public Service Commission Law," requiring and ordering them to certify to this court for review the records and proceedings in that certain proceeding before them, entitled: "The Department of Public Works of Washington, Complainant, v. The Pacific Telephone and Telegraph Company and The Home Telephone and Telegraph Company, [fol. 270] respondents—The City of Seattle, a municipal corporation, et al., complainants, v. The Pacific Telephone and Telegraph Company, a corporation, defendant, No. 5344, (Consolidated cases)."

This motion is based upon the petition and application for writ of review, filed herein, and the other records and files in the above entitled cause.

Thomas J. L. Kennedy, Corporation Counsel; Walter B. Beals, Assistant; George A. Meagher, Assistant, Attorneys for Petitioner and Relator.

[fol. 271] IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON FOR THURSTON COUNTY

[Title omitted]

ORDERS FOR WRIT OF REVIEW

The court having read and examined the petition and application for writ of review heretofore filed in the above entitled cause by and on behalf of The City of Seattle, a municipal corporation, praying that a writ of review be issued forthwith directing E. V. Kuykendall, as Director of Public Works, Hence H. Cleland, as Supervisor of Public Utilities, and Frank R. Spinning, as Supervisor of Transportation, of the State of Washington, the persons constituting that portion of the Department of Public Works of Washington exercising jurisdiction in the Division of Public Utilities under the "Public Service Commission Law," to certify to this court for review the records and proceedings in that certain proceeding before them, entitled; "The Department of Public Works of [fol. 272] Washington, complainant, v. The Pacific Telephone and Telegraph Company and the Home Telephone and Telegraph Company, respondents,—The City of Seattle, a municipal corporation, et al., complainants, v. The Pacific Telephone and Telegraph Company, a corporation, defendant, No. 5344, (Consolidated cases);" and it appearing to the court that said writ should issue; Now, Therefore, on motion of Thomas J. L. Kennedy, Corporation Counsel of the City of Seattle, and Walter B. Beals and George A. Meagher, Assistant Corporation Counsel of the City of Seattle, attorneys for the petitioner and relator, it is hereby

Ordered that a writ of review issue forthwith, directed to said E. V. Kuykendall, Hance H. Cleland and Frank R. Spinning, in their respective official capacities, requiring and directing that the record in said cause be certified to this court on or before the 23rd day of May, 1923, at the hour of 10:30 o'clock A. M.; It is further

Ordered that said writ be served by filing the same forthwith in the principal office of the Department of Public Works of Washington, at Olympia.

Done in open court this 27th day of April, 1923.

D. F. Wright, Judge.

[fol. 273] IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON FOR THURSTON COUNTY

[Title omitted]

WRIT OF REVIEW

The State of Washington to E. V. Kuyendall, as Director of Public Works; Hance H. Cleland, as supervisor of Public Utilities, and Frank R. Spinning, as Supervisor of Transportation, of the State of Washington, the persons constituting that portion of the Department of Public Works of Washington exercising jurisdiction in the Division of Public Utilities under the "Public Service Commission Law," and The Pacific Telephone and Telegraph Company, a corporation, respondents:

Whereas, The City of Seattle, a municipal corporation, has this day filed in the above entitled court its petition and application for a writ of review, supported by affidavit, from which it appears that the above named E. V. Kuykendall, Director of Public Works, and Frank H. Spinning, Supervisor of Transportation, being a majority of the persons constituting that portion of the Department of [fol. 274] Public Works of Washington charged with the enforcement of the "Public Service Commission Law," and, in the exercise of jurisdiction thereunder in the Division of Public Utilities, did, on the 31st day of March, 1923, make alleged findings of fact, render an opinion, and enter an order in the proceedings before the said Department of Public Works, in the Division of Public Utilities, entitled: "The Department of Public Works of Washington, complainant, v. The Pacific Telephone and Telegraph Company and The Home Telephone and Telegraph Company, respondents—The City of Seattle, a municipal corporation, et al., complainants, v. The Pacific Telephone and Telegraph Company, a corporation, respondent, No. 5344 (consolidated cases)," which said alleged findings of fact, opinion and order were served on The City of Seattle within thirty (30) days last past, to-wit, on the 2nd day of April, 1923.

And it further appearing that said order denied the prayer contained in the complaint and supplemental complaint of The City of Seattle for reduction in telephone rates, and that said order was based on certain incompetent testimony and disregarded competent testimony; and,

Whereas, it further appears that the complainant in said proceeding, The City of Seattle, deems the aforesaid order to be contrary to law and seeks the issuance of a writ of review for the purpose of having the reasonableness and lawfulness thereof inquired into and determined; and,

Whereas, it further appears that The City of Seattle has no right of appeal nor any other plain, speedy, adequate or other remedy at law or otherwise, and no remedy except a writ of review, and the court being fully advised in the premises; Now, Therefore, it is hereby

[fol. 275] Ordered that the said E. V. Kuykendall, as Director of Public Works, Hance H. Cleland, as Supervisor of Public Utilities, and Frank R. Spinning, as Supervisor of Transportation, of the State of Washington, the persons constituting that portion of the Department of Public Works of Washington exercising jurisdiction in the Division of Public Utilities under the "Public Service Commission Law," certify their entire record in said cause entitled, "The Department of Public Works of Washington, complainant, v. The Pacific Telephone and Telegraph Company and The Home Telephone and Telegraph Company, respondents—The City of Seattle, a municipal corporation, et al., complainants, v. The Pacific Telephone and Telegraph Company, a corporation, respondent," numbered 5344 in their files, and file the same in this court, together with all evidence and all exhibits introduced before them in the hearings by them had in respect to said cause, together with all orders, docket entries and other entries in said cause by them made, and all things touching the said cause, as fully and entirely as it remains before you and the said Department of Public Works of Washington, Division of Public Utilities; And it is further

Ordered that this writ be, and it is hereby, made returnable on the 23rd day of May, 1923, (being a date less than thirty days from the date of issuance hereof), at the hour of 10:30 o'clock A. M., on or prior to which said date the aforesaid record shall be certified and filed herein; And it is further

Ordered that the said respondents, E. V. Kuykendall, as Director of Public Works, Hance H. Cleland, as Supervisor of Public Utilities, and Frank R. Spinning, as Supervisor of Transportation, of the [fol. 276] State of Washington, the persons constituting that portion of the Department of Public Works of Washington exercising jurisdiction in the Division of Public Utilities under the "Public Service Commission Law," and the Pacific Telephone and Telegraph Company, a corporation, appear before this court on said return date, at the said hour of 10:30 A. M., at which time a hearing will be had upon the reasonableness and lawfulness of the said order which was entered on the 31st day of March, 1923, as aforesaid, said hearing to be conducted as provided by law, and at said time this court may further cause to be done whatever it may appear of right ought to be done, and in the meantime that they, and each of them, and said Company desist from filing, or attempting to file, new or other or alternative telephone tariffs or schedules of telephone rates in the premises; And it is further

Ordered that this writ be served by filing the same in the principal office of the Department of Public Works of Washington at Olympia.

Herein fail not and have you then and there this writ.

Witness the Honorable D. F. Wright, Judge of the Superior Court of the State of Washington, for Thurston County, at Olympia, this 27th day of April, 1923.

D. F. Wright. Attest: Paul Paulk, County Clerk and ex-Officio Clerk of the Superior Court.

[fol. 277] IN THE SUPERIOR COURT OF THE STATE OF WASHINGTON FOR THURSTON COUNTY

[Title omitted]

APPLICATION AND PETITION FOR WRIT OF REVIEW

Comes now The City of Seattle, a municipal corporation, by its attorneys, Thomas J. L. Kennedy, Corporation Counsel, and Walter B. Beals and George A. Meagher, Assistant Corporation Counsel, deeming that certain order (hereinafter more fully described and referred to) of E. V. Kuykendall, as Director of Public Works, Hance H. Cleland, as Supervisor of Public Utilities, and Frank R. Spinning, as Supervisor of Transportation, of the State of Washington, the persons constituting that portion of the Department of Public Works of Washington exercising jurisdiction in the Division of Public Utilities under the "Public Service Commission Law," (hereinafter referred to as Department of Public Works), to be contrary to law, and hereby applies to the court for a writ of review, directed [fol. 278] to the above named respondents, for the purpose of having the reasonableness and lawfulness of said order inquired into and determined. In support of its application, The City of Seattle shows the court:

I. That the petitioner and relator, The City of Seattle, is now, and at all times herein mentioned has been, a municipal corporation and city of the first class, organized and existing under and by virtue of the laws of the State of Washington.

II. That the respondent, The Pacific Telephone and Telegraph Company, is now, and at all times herein mentioned has been, a corporation and a "public service company" and "telephone company," owning, operating and managing certain telephone lines used in the conduct of the business of affording telephonic communication for hire within the State of Washington and within the city limits of the City of Seattle, pursuant to law and franchise grants from said City.

III. That Albert S. Burleson, at that time Postmaster General of the United States, was, on the 22nd day of July, 1918, designated by the President of the United States to supervise and direct the operation of certain telephone and telegraph lines temporarily taken in charge by the President of the United States pursuant to that certain joint resolution of the Congress of the United States, approved July [fol. 279] 16, 1918, authorizing the President of the United States to supervise, take possession and assume control of, telegraph, telephone and other systems of communication for the duration of the war with the Imperial Government of Germany.

IV. That heretofore, on the 5th day of August, 1916, the Public Service Commission of Washington, in Cause No. 1825 of its files, found, after hearing upon complaint, that certain telephone rates,

tolls and charges under the rules and regulations therein promulgated to govern the same, including certain provisions for discounts, were sufficiently remunerative to the above named respondent telephone company, the said findings as to rates, charges, rules and regulations and discounts being thereafter, on the 1st day of September, 1916, embodied in a tariff filed with the Public Service Commission of the State of Washington, a copy of said tariff, insofar as the same relates to The City of Seattle, being hereto attached, marked Exhibit "A", and by such reference made a part hereof.

V. That, on or about the 5th day of November, 1918, during the war period of "Federal wire control," certain officials of the above named respondent telephone company, pretending to act on behalf of the Federal Government, which was at that time in control of the entire plant and system of said telephone company and of all of its employees, issued, and thereafter filed with the Public Service Commission of Washington, a pretended new tariff and schedule of rates, attempting to supersede the tariff and rates hereinabove mentioned, and which was intended to become effective as of November [fol. 280] 15, 1918, without the thirty day notice to, or the permission of, the said Public Service Commission, and seeking and pretending to change and increase the tariff, rates and charges theretofore authorized by the Public Service Commission and changing the aforesaid rules and regulations and eliminating said discounts; that a copy of said pretended tariff is hereunto attached, Marked Exhibit "B" and by such reference made a part hereof; that said pretended tariff, insofar as the same attempted to change said rules and regulations and to eliminate said discounts, and insofar as it attempted to provide for increased rates and charges, was unjust, unfair and unreasonable, and contrary to, and not authorized by, law.

VI. That, the entire plant and system of the respondent telephone company being at that time subject to, and under, Federal war time control, the Public Service Commission of Washington was without any jurisdiction in the premises and was without authority or jurisdiction to receive or file said tariff or to make any order in respect to the same, and said pretended tariff and schedule of rates was therefore without legal effect or standing in law; that the said Public Service Commission nevertheless attempted to assume jurisdiction and to hold a hearing in respect to the same in Cause No. 4747 of its files, and attempted, after said hearing, to approve, and made an order approving, said tariff; that said order approving said tariff was set aside by the Supreme Court of the State of Washington as not within the jurisdiction of the Public Service Commission during Federal wire control; that said decision of the Supreme Court is reported in [fol. 281] Volume 110 of the Washington Reports, at page 130; that the said order of the Public Service Commission and the said tariff were, and are, ineffective for any purpose; that the Federal wire control was terminated on or about August 1, 1919, and the said plant and system of the said respondent returned to it by the Federal Government; that the said respondent thereafter filed no new

tariff (and has not to this day filed any new tariff in the premises with the exception of a disapproved tariff hereinafter referred to), but continued to charge, and still continues to charge, its patrons in Seattle the rates prescribed in said pretended tariff herein set forth as Exhibit "B", although the only lawful tariff on file on behalf of said respondent in respect to the City of Seattle is the tariff herein set forth as Exhibit "A".

VII. That the rates, tolls, contracts, charges and rules and regulations imposed upon telephone users within the City of Seattle under said pretended tariff (Exhibit "B") are unjust, unfair, unreasonable and more than sufficient and not authorized by any tariff on file with the State Department of Public Works or with its predecessor, the Public Service Commission of Washington; that, in so far as said rates, tolls and charges are in excess of the rates prescribed in the tariff herein set forth as Exhibit "A", the same are unlawful overcharges and excessive and exorbitant in amount and subject to be repaid to the telephone users, together with interest thereon from the date of collection thereof.

[fol. 282] VIII. That Ordinance No. 43170 is a valid and subsisting ordinance of the City of Seattle, entitled:

"An ordinace relating to, and providing for, the filing with the Department of Public Works of Washington of a complaint against the Pacific Telephone & Telegraph Company, and for the obtaining of evidence to sustain said complaint, and declaring an emergency,"

passed by the City Council on the 6th day of February, 1922, and approved by the Acting Mayor on the 7th day of February, 1922, and that, pursuant to authority thereby granted, a complaint was signed by the Acting Mayor, verified on oath, and filed by The City of Seattle with the Department of Public Works and given cause number 5344 in its files.

IX. That, on or about the 20th day of September, 1922, the above named respondent telephone company issued and filed with the above named Department of Public Works a new tariff and schedule of rates, entitled: "W. D. P. W. No. 3, The Pacific Telephone & Telegraph Company Exchange Rate Schedule," purporting to have been issued as of October 2, 1922, and to be effective November 1, 1922; that said tariff, having been specifically disapproved by said Department of Public Works, is no longer in issue and need not be herein further referred to.

X. That Ordinance No. 44257 is a valid and subsisting ordinance of The City of Seattle, entitled:

[fol. 283] "An ordinance relating to, and providing for, the filing with the Department of Public Works of Washington of a complaint against the Pacific Telephone and Telegraph Company, and for the obtaining of evidence to sustain said complaint, and declaring an emergency,"

passed by the City Council on the 16th day of October, 1922, and approved by the Mayor on the 17th day of October, 1922, and that, pursuant thereto, a supplemental complaint was signed by the Mayor, verified on oath, and filed with the Department of Public Works in said Cause No. 5344 of its files.

XI. That, prior to the filing of said complaint and supplemental complaint by The City of Seattle, the Department of Public Works, on its own motion, had filed, in its Cause No. 5344, its own complaint, entitled: "The Department of Public Works of Washington, complainant, v. The Pacific Telephone Company, respondents," complaining of the existing tariffs, rates, tolls, facilities and service of said telephone companies throughout the State of Washington, including The City of Seattle; that the complaint and supplemental complaint of The City of Seattle, hereinabove referred to, were consolidated in the same cause with the said complaint of the Department of Public Works, and that on the 18th day of December, 1922, and dates subsequent thereto, the said Department of Public Works proceeded to hear and take evidence and testimony in respect to said complaints and supplemental complaint, combining the hearing thereof with sundry other complaints, the consolidated hearing being, and in, said Cause No. 5344 of the files of said Department of Public Works, entitled, "The Department of Public Works of Washing-[fol. 284] ton, complainant v. The Pacific Telephone and Telegraph Company and The Home Telephone and Telegraph Company, respondents, — The City of Seattle, a municipal corporation, et al., complainants, v. The Pacific Telephone and Telegraph Company, a corporation, etc., etc, defendants;" that, over the objection of petitioner and relator, the said Department of Public Works received incompetent evidence and considered the same in support of its finding, later made, in respect to the rates and tariffs provided for in said Exhibit "B."

XII. That thereafter, on the 31st day of March, 1923, the said Department of Public Works made and entered its pretended findings of fact, opinion, and final order in said consolidated cases, wherein and whereby said Department of Public Works pretended to order the dismissal of petitioner's complaint and supplemental complaint, in so far as the same sought a reduction in the rates specified in said Exhibit "B," and whereby said Department of Public Works further pretended to find the rates specified in said Exhibit "B" to be just, fair reasonable and not more than sufficient, and to order that said respondent telephone company be authorized to charge the rates specified in said Exhibit "B"; that said findings, opinion and order were served upon petitioner and relator on the 2nd day of April, 1923.

XIII. That said order of said Department of Public Works, in the respects hereinabove specified, is contrary to law, unreasonable and [fol. 285] unlawful, and made without jurisdiction, without the support of any competent evidence, and on the basis of incompetent evidence; that the authority conferred upon said Department of Public Works, in relation to the subject matter, was not pursued in the

mode required by law in order to authorize it to make the determination herein sought to be reviewed; that, in making the determination herein sought to be reviewed, all rules of law affecting the rights of the parties were violated, to the prejudice of the petitioner and relator; that there was no competent proof of any of the facts necessary to be proved in order to authorize the said Department of Public Works to make the determination herein sought to be reviewed; that upon all the evidence there was such a preponderance of proof against the existence of the alleged facts found as the basis for the denying of a reduction in rates, such as would, in an action in court, triable by a jury, authorize the setting of the same aside by the court as against the weight of the evidence; that there was included in the "rate base" upon which the respondent telephone company was held to be entitled to a fair return, millions of dollars of "construction work in progress" not yet used or useful for the public, and thousands of dollars listed as "Due from Subscribers and Agents;" that there was not deducted from said "rate base," but should have been so deducted, hundreds of thousands of dollars of excess funds collected and carried by said telephone company in a depreciation reserve over and above the amounts necessary to cover accrued depreciation; that there was included in said "rate base" millions of dollars of "ma-
[fol. 286] chine switching" facilities installed in the City of Seattle which added nothing to the service of present subscribers and which was, and is, an injudicious and improvident investment upon which the company is not entitled to a return, fair or otherwise; that, in making its determination, the Department of Public Works considered and gave weight to a "material supply contract" with the so-called Western Electric Company (which is an "associate" or "affiliated" company of the said telephone company, having common or interlocking directorates), which said contract is unlawful at common law and by reason of Federal statutes, and that in making its final determination of the amounts to which the said telephone company was entitled as operating expenses, the said Department of Public Works assumed that the extravagant expenses of said telephone company represented fair expenditures for said purposes.

XIV. That the order so made by said Department of Public Works was, and is, unlawful and unreasonable and contrary to law and without foundation and against the weight of the evidence adduced at the hearing in support of a reduction of rates; that the City of Seattle has no right of appeal nor any plain, speedy and adequate or other remedy at law and has no remedy except a writ of review; that the petitioner and relator, desiring to have the reasonableness and lawfulness of said order inquired into and determined, makes this application for a writ of review under the provisions of the Public Service Commission Law of Washington.

[fol. 287] Wherefore, petitioner and relator, The City of Seattle, prays:

That, inasmuch as the several objections urged in this petition were made before the Department of Public Works in said Cause

No. 5344 in the course of the hearing thereof, and inasmuch as the matters and things herein set forth will appear more fully in the records and files of said Cause No. 5344 in the office of said Department of Public Works, therefore this court issue its writ of review, requiring and commanding said Department of Public Works to certify to this court the records in said proceeding, including the complaint and supplemental complaint of The City of Seattle, and record of all of the testimony taken at the aforesaid hearings, and the finding and order of said Department of Public Works, made and filed on the 31st day of March, 1923, together with all exhibits of every kind and nature offered and received in connection with said hearings, and each and every order made and entered in connection therewith, and that, upon said record being returned into this court, the court grant a full review and hearing of said findings and orders and of all of said proceedings, and that the manifest errors herein complained of be corrected, and that said findings and orders, which are contrary to law and unreasonable, as aforesaid, be in all things set aside and annulled, in so far as the same deny a reduction in telephone rates within The City of Seattle, and that petitioner and relator be granted such further relief as in justice and law it may be entitled to.

[fol. 288] The City of Seattle, a Municipal Corporation, By Edwin J. Brown, Its Mayor. Thomas J. L. Kennedy, Corporation Counsel; Walter B. Beals, Assistant; George A. Meagher, Assistant, Attorneys for Petitioner and Relator.

[fol. 289] Jurat showing the foregoing was duly sworn to by Edwin J. Brown omitted in printing.

[fol. 290] EXHIBIT A TO APPLICATION

W. P. S. C. No. 2, Section 1

The Pacific Telephone & Telegraph Company Exchange Rate Schedule

Exchange: Seattle, King Co., Washington

Business—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$7.50	$7.50
Auxiliary Line	6.00	6.00
" " (Inward Service)	3.00	3.00
Suburban Service (Ten Party line, see Sec. 2)	3.00	3.00
Extension (with or without bell)	1.00	1.00

Residence—Unlimited Service

Individual Line	3.00	3.50
Two-party Line	2.50	3.00
*Four-party Line	2.25	2.75
Extension (without bell)	.50	.50
" (With bell)	.50	.50
Suburban Service (Ten party line, see Sec. 2)	2.50	2.50

Primary Rate Area—See Map.

Rates are effective inside Primary Rate Area unless otherwise indicated. For service outside Primary Rate Area, see Mileage Rates, Section 3.

*Discount of 25¢ if bill is paid at office on or before the tenth day of month.

Issued September 1, 1916. Effective September 1, 1916.

Cancels and supersedes Exchange Rate Schedule effective January 1, 1911.

*In accordance with Order No. 1825 of the Public Service Commission of Washington.

P. H. Coolidge, General Commercial Superintendent.

[fol. 291] Exhibit "A" (Continued)

W. P. S. C. No. 2, Section 1

The Pacific Telephone and Telegraph Company Exchange Rate Schedule

Exchange: Seattle, King Co., Washington

Business—Measured Service

	Rate per month		Exchange messages per month	Each additional exchange message
	Wall set	Desk set		
Individual Line	$5.00	$5.00	100	$.03
" "	6.00	6.00	150	.025
Auxiliary Line	2.50	2.50		
Auxiliary Line	2.50	2.50	...	....
Extension (with or without bell)	.75	.75	...	....

Residence—Measured Service

Business—Coin Box Service

Individual Line	.15	.15	3	.035
Extension (with or without bell)	1.00	1.00	...	....

Residence—Coin Box Service

Issued September 1, 1916. Effective September 1, 1916.
Cancels and supersedes Exchange Rate Schedule effective January 1, 1911.
* In accordance with Order 1825 of the Public Service Commission of Washington.
P. H. Coolidge, General Commercial Superintendent.

[fol. 292] EXHIBIT "B" TO APPLICATION

W. P. S. C. No. 2, Section 1

The Pacific Telephone and Telegraph Company Exchange Rate Schedule

Exchange: Seattle, King Co., Washington

Business—Unlimited Service

	Rate per month	
	Wall set	Desk set
Individual Line	$8.50	$8.75
Extension (with or without bell)	1.00	1.00
Suburban Service (Ten party line, see Section 3)	3.50	3.75

Residence—Unlimited Service

Individual Line,	3.75	4.00
Two Party Line,	3.00	3.25
Four Party Line,	2.50	2.75
Extension (without bell)	.50	.75
Extension (with bell)	.65	1.00
Suburban Service (Ten party line, see Section 3)	3.00	3.25

Primary Rate Area—See Map.

Rates are effective inside Primary Rate Area unless otherwise indicated. For service outside Primary Rate Area, see Mileage Rates, Section 3.
Issued November 5th, 1918. Effective Nov. 1, 1918.
Cancels and supersedes Exchange Rate Schedule effective September 1st, 1916.
P. H. Coolidge, General Commercial Superintendent.

[fol. 293] Exhibit "B" (Continued)

W. P. S. C. No. 2, Section 1

The Pacific Telephone and Telegraph Company Exchange Rate Schedule

Exchange: Seattle, King Co., Washington

Business—Measured Service

	Rate per month		Exchange messages per month	Each additional exchange message
	Wall set	Desk set		
Individual Line, ...	$6.50	$6.75	$1.30	$.04
Auxiliary Line.....	2.50	2.75	...	....
Extension (with or without bell)	.75	.75	...	....

Business—Coin Box Service

	Rate per day		Exchange messages per day	Each additional exchange message
	Wall set	Desk set		
Individual Line	$.15	$ *	$.03	$.05
*25 cents per month additional.				
Extension (with or without bell) per month.....	1.00	1.00	....	....

Issued November 5th, 1918. Effective November 15, 1918.
Cancels and supersedes Exchange Rate Schedule Effective September 1, 1916.

P. H. Coolidge, General Commercial Superintendent.

STATE OF WASHINGTON,
County of Thurston, ss:

I, Paul Paulk, Depty. County Clerk of Thurston County and Ex-officio Clerk of the Superior Court of the State of Washington, for Thurston County, holding session at Olympia, do hereby certify that the foregoing is a true and correct copy of the original Motion for Writ of Review, Order for Writ of Review, Writ of Review and Application for Writ of Review, Cause #8972, State ex rel. City of Seattle vs. E. V. Kuykendall, et al. as the same appears on file and of record in my office.

In witness whereof, I have hereunto set my hand and affixed the seal of said Court this 27th day of April, 1923.

Paul Paulk, Deputy County Clerk and Clerk of the Superior Court of Thurston County, State of Washington.

[fol. 294] and made a part of this affidavit.

E. V. Kuykendall.

Subscribed and sworn to before me this 25th day of April, 1923. J. H. Brown, Notary Public in and for the State of Washington, Residing at Olympia.

[File endorsement omitted.]

[fol. 295] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

AFFIDAVIT OF E. D. RIDLEY CONCERNING RATE BASE AND FAIR RETURN OF PLAINTIFF—Filed Apr. 30, 1923

THE STATE OF WASHINGTON,
County of King, ss:

E. D. Ridley, being first duly sworn, upon oath deposes and says: That affiant is an engineering accountant, of ten years' experience in such work; that affiant served in such capacity and in that of law assistant with the Public Service Commission of Washington for a period of six years; that for some time past, affiant has been associated with Thomas E. Phipps, consulting valuation engineer; that affiant was employed by said Thomas E. Phipps and by the City of Spokane in connection with a plant survey and valuation of the properties of the Pacific Telephone and Telegraph Company and The Home Telephone and Telegraph Company in connection with Cause No. 5344 of the Department of Public Works of Washing-
[fol. 296] ton, in which the order in this cause complained of was entered by said Department; that, in arriving at the rate base of $32,108,853.76 for the purpose of fixing a rate of fair return for the plaintiff telephone companies, the Department of Public Works included $6,712,822 of construction work in progress and $335,964 representing amounts due from subscribers and agents, although both of said amounts might reasonably as a matter of law have been deducted from the rate base as fixed by said Department; that, in making this affidavit, affiant is not basing his opinion on the further contention that might be made that the machine switching program in the City of Seattle, representing practically the total amount of construction work in progress above mentioned, could reasonably have been deducted from the rate base by the Department on the theory that, under the Company's evidence, the same was an injudicious investment; that, allocating to the State of Washington its proportion of the accrued depreciation reserve of The Pacific Telephone and Telegraph Company, a figure of $5,613,816 is arrived at; that, deducting the 15% accrued depreciation found by the Department of Public Works in the amount of $3,073,265, the excess amount for the State of Washington in the depreciation reserve of said Pacific Company amounts to $2,540,551; that in

fixing the rate base above mentioned, the Department of Public Works did not deduct this, or any other, amount as representing excessive accrued depreciation reserve; that if the above or any of the foregoing deductions had been made by the State Department of Public Works, the fair return to the company, as indicated in the opinion and order of the Department, would necessarily have been much higher and in excess of the 6.01% by said Department found [fol. 297] to be a fair return which would accrue to the Company under its present rates.

E. D Ridley

Subscribed and sworn to before me this 28th day of April, 1923. E. B. McClinton, Notary Public in and for the State of Washington, Residing at Seattle.

[File endorsement omitted.]

[fol. 298] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

ORDER DISSOLVING RESTRAINING ORDER AND DENYING INJUNCTION—Filed Apr. 30, 1923

This matter coming on for hearing before Hon. William B. Gilbert, Circuit Judge, and Hon. Edward E. Cushman and Hon. Jeremiah Neterer, District Judges, upon plaintiffs' application for an interlocutory injunction and the defendants' motion to dissolve the restraining order heretofore issued,

It is ordered that the restraining order be dissolved and that an interlocutory injunction be denied.

Opinion will be later filed.

Ordered, this 30th day of April, A. D. 1923.

William B. Gilbert, Circuit Judge. Edward E. Cushman, District Judge. Jeremiah Neterer, District Judge.

[fol. 299] [File endorsement omitted.]

[fol. 300] IN THE DISTRICT COURT OF THE UNITED STATES, WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

[fol. 301] OPINION ON APPLICATION FOR AN INTERLOCUTORY INJUNCTION—Filed May 23, 1923

Before Hon. William B. Gilbert, United States Circuit Judge, Hon. Edward E. Cushman and Hon. Jeremiah Neterer, United States District Judges

These causes are before the court upon applications for temporary injunctions under Section 266 of the Judicial Code (Section 1243 Compiled Statutes) and also upon defendants' motions to dissolve the restraining orders heretofore made.

The Complaint in cause No. 166-E alleges that plaintiff operates a telephone and telegraph system in the State of Washington and elsewhere; that the defendants are officers of the State of Washington, as recited in the title hereto; that the order of the Department of Public Works of the State, prescribing maximum rates to be charged by plaintiff for its telephone service, is confiscatory and would deprive plaintiff of its property without due process of law; that, in September, 1922, plaintiff filed a schedule of rates, increasing its charges, which was suspended by the Department and an order made that plaintiff withdraw such schedule of rates filed and file a schedule conforming to its schedule in effect prior to the war period, which plaintiff did, save as to charges applicable to the Cities of Seattle and Tacoma; that numerous hearings were had by the Department for the purpose of determining the value of plaintiff's [fol. 302] property and the reasonableness of its rates; that a ruling of the Department was made, one member dissenting, denying plaintiff's application for an increase in all respects. The dissenting member found the rates fixed, both toll and exchange, unreasonably low and found the rates filed by plaintiff in compliance with defendants' order to be reasonable.

It is averred that the cost of plaintiff's property in the state—exclusive of that furnishing telephone service to Spokane and adjacent territory (which latter is the subject of suit No. 167-E), was, on December 31, 1922, $29,347,254.00; that the cost of its Seattle property was $17,023,372.00; and the cost of its Tacoma property, $2,888,021.00; that the cost of such property has been increased since such date by additions and betterments; that the cost to plaintiff of its property was taken by the Department, substantially, as the rate base in fixing its charges in the order attacked; that the cost of reproduction as of the above date was, for the state, not including Spokane, $48,087,785.00; for Seattle $27,149,130.00 and for Tacoma $4,998,964.00; that the cost, less depreciation of such date, for the state was $24,919,930.00; and for Tacoma $4,534,264.00; that the fair and reasonable value of such property as of such date was: for

the State, $35,616,896.00; for Seattle, $20,852,067.00; and for Tacoma $3,457,290.00.

The complaint further alleges that:

"The foregoing statements as to the cost to plaintiff of said respective properties include nothing on account of the item of franchises, or the item known as going concern value, but said latter item has been considered in determing the present cost of reproduction and the present fair and reasonable value of said property."

Not less than eight per cent upon the reasonable value is alleged to be a fair annual rate upon its business.

It is alleged that plaintiff's net return upon such property under the rates ordered for the years 1919, 1920, 1921, and 1922, based upon [fol. 303] property cost, has ranged, for the state, from a maximum, in 1919, of 4.97% to a minimum in 1922, of 3.17%; for Seattle, from a maximum, in 1919, of 3.97%, to a minimum, in 1922, of .19%; and for Tacoma, from a maximum in 1919 of .98% to a minimum in 1921 of .58%. That its rate of return during such years, based upon the fair value of its property ranged, for the state, from a maximum in 1919, of 3.67% to a minimum in 1921 and 1922, of 2.58%; for Seattle, from a maximum in 1919, of 2.66% to a minmum, in 1922, of .15%; and for Tacoma from a maximum of .81% in 1919, to a minimum, in 1921 of .48%. That the net revenue received for such years fell short of eight per cent upon the cost of its property in varying amounts, ranging for the state from a maximum in 1922, of $1,310,651.00 to a minimum in 1919 of $537,242.00; for Seattle, from a maximum in 1922 of $1,192,580 to a minimum, in 1919, of $312,793.00; and for Tacoma, from a maximum in 1921, of $205,110.00 to a minimum in 1919 of $187,587.00.

It is further alleged that, if the rates ordered are enforced and efficient service is maintained, it will result in the confiscation of plaintiff's property and prevent it from earning any return upon the fair and reasonable value of its property in the State in excess of 2.11% per annum; that .54% per annum loss would result upon the value of its Seattle property and .56% upon its Tacoma property.

It is alleged that, were the rates of the dissenting order in effect for 1923, plaintiff's return upon the fair and reasonable value of its property in the state would be 5.09%; for the City of Seattle, 2.81% and for Tacoma, 3.96%; that based upon the cost of its property, for [fol. 304] the same period, plaintiff's rate would be, for the state, 6.15%; for the City of Seattle, 3.42%; and for the City of Tacoma, 4.73%; that such last mentioned rates are unreasonably low; but that plaintiff proposes to put them in effect pending final decree and asks relief by way of an interlocutory injunction enabling it so to do.

In the above entitled cause, No. 167-E, involving the Spokane rates, alone, the complaint asks the same relief and, in so far as its allegations differ from the foregoing avers:

That the cost of the property in the Spokane exchange (land being included at present value), was, on the 31st day of December, 1922, $4,266,899.00; that the cost at present is in excess of this amount; that the cost above given is the rate base used by the De-

partment in the order attacked; that the cost of reproduction as of December 31, 1922, would be $8,039,784.00; that the cost of reproduction, less depreciation, as of that date, would be $7,382,484.00; that the fair and reasonable value of the Spokane exchange property is $5,710,684.00. That plaintiff's net earnings for the years 1919, 1920, 1921 and 1922, calculated upon the cost of the property, give plaintiff an annual return ranging, from a maximum, in 1922, of 3.07%, to a minimum, in 1920, of 1.79%; that its net earnings for the same years, calculated on the fair value of its property, give returns ranging from a maximum, in 1922, of 2.28%, to a minimum in 1920 of 1.30%. That for such years the net revenue failed to make a return of eight per cent. upon the cost, in amounts ranging from a minimum, in 1919, of $193,042.00, to a maximum in 1920, of $237,883.00. That, if the Department's order is enforced, plaintiff would be prevented from earning, in 1923, any return in excess [fol. 305] of 1.88% per annum upon the fair and reasonable value of its property. That, if the order of the dissenting member of the Department—which plaintiff asks to have put in effect pending final decree—is enforced, plaintiff would earn, for such time, 5.52% upon the fair value of its property, which would amount to but 7.64% upon its cost.

It is shown herein that the proceedings before the Department, resulting in the rate order attacked by the complaint, were instituted upon the complaint of the Department, after which the City of Seattle filed its supplemental complaint therein attacking plaintiff's then existing rates.

The Department held:

"that a determination of the telephone rates for Seattle and King County could only be made, legally, after the filing of a formal complaint, an investigation and study of the entire system of the Pacific Telephone and Telegraph Company in the state of Washington * * *.

"The Department's engineering and accounting staff was forthwith directed to proceed with and to make, in co-operation with engineers and accountants employed by the cities or other interested complainants, a thorough and complete analysis, investigation and report on all matters which could and should be considered in a final determination of the matter before the Department."

The causes were consolidated for hearing by the Department. On December 14, 1922, the Washington Hotel Men's Association filed its complaint. Representatives of the cities of Tacoma and Spokane took part in the hearing. These hearings resulted in the Department's order attacked herein by plaintiffs.

At the conclusion of a number of hearings, the Department found:

"Finding

The value of the telephone properties of the Pacific Telephone and [fol. 306] Telegraph Company in the state of Washington, including the Spokane Exchange, used and useful in public service, was

as of June 30, 1922, $32,108,853.76 which amount is fixed as the rate base as of that date.

Discussion

The respondents in this case have contended for a value (termed by them fair value) in the amount of $40,000,000. This contention is fully answered, to the contrary, by our own Supreme Court in State ex rel. Spokane Gas Light Company vs. Kuykendall, 119 Wash. 107.

* * * * * * *

"As to the value of the Pacific Company's plant in Washington, the procedure was merely to bring up to date the valuation made in 1914 by the Public Service Commission, adding thereto the net additions and betterments from December 31, 1914, to June 30, 1922.

"In these findings and this order, all of the property of the Pacific Telephone and Telegraph Company and the Home Telephone and Telegraph Company of Spokane will be treated as one system and the property in Spokane will be treated as an exchange of the Pacific Telephone and Telegraph 'system'. Technically, the Home Telephone and Telegraph Company of Spokane is a separate entity, but it is common knowledge that it is maintained as a separate entity for franchise purposes only. All of the stock of the Home Company, except a few directors' qualifying shares, is owned by the Pacific Company and for all practical purposes the Spokane plant is in fact an exchange or part of the Pacific System just as are Seattle and Tacoma; therefore, the valuation made of the Spokane Exchange is treated as an integral part of the state-wide system and the rates to be fixed herein will bear the same relation to the system as do the rates for Seattle and Tacoma. * * *

"Finding

We find that the annual depreciation charge should be reduced from approximately 6% to 3½% for the period of two years from April 1st, 1923. * * *

"Finding

We find that the Four and One-half per cent. contract between the Pacific Telephone and Telegraph Company and the American Telephone and Telegraph Company is wrong in principle, contrary to public policy and the compensation thereunder should be computed on the per station basis rather than a perecentage of revenue. We find a reasonable charge per annum for the services rendered under said contract to be 90 cents per station. * * *

"In the case of the City of Houston vs. Southwestern Bell Telephone Company etc., U. S. Supreme Court Advance Opinions 1921-1922, No. 16, July 1, 1922, p. 539, is cited by respondents as supporting the contract, but the opinion clearly states that the fact that one [fol. 307] company owns stock in another 'requires close scrutiny of

their dealings to prevent imposition upon the community served by the company.' "

In cause No. 166-E, the Attorney General has moved for a stay of this suit, pending the final determination of a suit brought in the Superior Court of Thurston County, ex rel. City of Seattle, on the ground that the latter suit is one to enforce the order sought to be enjoined herein.

Section 266 of the Judicial Code (Section 1243 Comp. Stats.), in part, provides:

" * * * It is further provided that if before the final hearing of such application a suit shall have been brought in a court of the State having jurisdiction thereof under the laws of such state, to enforce such statute or order, accompanied by a stay in such State court of proceedings under such statute or order pending the determination of such suit by such State court, all proceedings in any court of the United States to restrain the execution of such statute or order shall be stayed pending the final determination of such suit in the courts of the State. Such stay may be vacated upon proof made after hearing, and notice of ten days served upon the attorney general of the State, that the suit in the State courts is not being prosecuted with diligence and good faith."

An examination of the record in the suit in Thurston County on the relation of the City of Seattle shows that this suit is one also attacking the rate ordered by the Department, and asks an even lower rate than that provided by the order for Seattle. It is shown that an order has been made by the Superior Court in such suit, in part, as follows:

"Ordered that the said respondents, E. V. Kuykendall, as Director of Public Works, Hance H. Cleland, as Supervisor of Public Utilities, and Frank R. Spinning, as Supervisor of Transportation, of the State of Washington, the persons constituting that portion of the Department of Public Works of Washington exercising jurisdiction in the Division of Public Utilities under the 'Public Service Commission Law,' and The Pacific Telephone and Telegraph Company, a corporation, appear before this court on said return date, at the said hour of 10:30 A. M., at which time a hearing will be had upon the reasonableness and lawfulness of the said order which was entered on the 31st day of March, 1923, as aforesaid, said hearing to be conducted as provided by law, and at said time this court may [fol. 308] further cause to be done whatever it may appear of right ought to be done, and in the meantime that they, and each of them, and said Company desist from filing or attempting to file, new or other or alternative telephone tariffs and schedules of telephone rates in the premises."

The rates to be established for the state must be, to a certain extent at least, inter-dependent. Yet it would seem that the suit in the Superior Court, being brought on relation of the City of Seattle,

would not, in the absence of intervention, necessarily be res judicata either of the rates throughout the state, or those of Tacoma or Spokane. Yet it is clear that the Department's course in holding that the questions involved would only be satisfactorily determined after "an investigation and study of the entire system of the Pacific Telephone & Telegraph Company in the State of Washington" was entirely proper. This system and the rate to be fixed, based upon its ascertained value, are in the nature of a res. Therefore, while questions determined in the absence of interested parties, if any, may not strictly be res judicata, yet under the necessities of the case, all the rights and duties of all interested would necessarily be considered and found, if not determined.

The foregoing considerations, coupled with the fact that the suit brought in the Superior Court is not one to enforce the rate order attacked by plaintiffs, but, is itself, one making an attack thereon, renders the proviso of Section 266 of the Judicial Code not strictly applicable. It does not follow, however, that consideration of the institution of such suit is to be ignored, or that it is without effect. This matter will be later considered.

By sections 10424 and 10431, Remington's Compiled Statutes, 1922, it is provided:

[fol. 309] "Sec. 10424. Whenever any public service company shall file with the commission any schedule, classification, rule or regulation, the effect of which is to increase any rate, fare, charge, rental or toll theretofore charged, the commission shall have power, either upon its own motion or upon complaint, upon notice, to enter upon a hearing concerning such proposed increase and the reasonableness and justice thereof, and pending such hearing and the decision thereon, the commission may suspend the operation of such rate, fare, charge, rental or toll for a period of ninety (90) days from the time the same would otherwise go into effect, and after a full hearing the commission may make such order in reference thereto as would be provided in a hearing initiated after the same had become effective: Provided, that if any such hearing cannot be concluded within the period of suspension, as above stated, the commission may, in its discretion, extend the time of suspension for a further period not exceeding sixty (60) days.

"At any hearing involving any change in any schedule, classification, rule or regulation the effect of which is to increase any rate, fare, charge, rental or toll theretofore charged, the burden of proof to show that the changed schedule, classification, rule, or regulation, or the increased or proposed increased rate, fare, charge, rental or toll, is just and reasonable shall be upon the public service company.

"The commission shall give to the hearing and decision of such questions preference over all other questions pending before it and shall decide the same as speedily as possible.

"If the commission shall at the conclusion of the hearing refuse to permit such increase, either in whole or in part, no supersedeas shall be granted in any action or proceeding brought to review the order of the commission pending the final determination of such

action by the superior court, or, if appealed to the supreme court, by such supreme court." (Laws of 1915, p. 362, sec. 1. Cf. Laws of 1911, p. 594, sec. 82.)

"Sec. 10431. Any public service company affected by any order of the commission, and deeming itself aggrieved, may, after the expiration of two years from the date of such order taking effect, petition the commission for a rehearing upon the matters involved in such order, setting forth in such petition the grounds and reasons for such rehearing, which grounds and reasons may comprise and consist of changed conditions since the issuance of such order, or by showing a result injuriously affecting the petitioner which was not considered or anticipated at the former hearing, or that the effect of such order has been such as was not contemplated by the commission or the petitioner, or for any good and sufficient cause which for any reason was not considered and determined in such former hearing. Upon the filing of such petition, such proceedings shall be had thereon as are provided for hearings upon complaint, and such orders may be reviewed as are other orders of the commission: Provided, that no order superseding the order of the commission [fol. 310] denying such rehearing shall be granted by the court pending the review. In case any order of the commission shall not be reviewed, but shall be complied with by the public service company, such petition for rehearing may be filed within six months from and after the date of the taking effect of such order, and the proceedings thereon shall be as in this section provided. The commission may, in its discretion, permit the filing of a petition for rehearing at any time. No order of the commission upon a rehearing shall affect any right of action or penalty accruing under the original order unless so ordered by the commission." (Laws of 1911, p. 599, sec. 89.)

It has been contended upon the part of the defendants that the present suit has been prematurely begun because no petition for a re-hearing has been presented by plaintiffs to the Department of Public Works—which is the successor of the Public Service Commission (Remington's Compiled Statutes section 10784)—asking for a re-consideration of its rate order.

In view of the discretionary character of proceedings upon rehearing and the provision made in the sections quoted denying the right of supersedeas—which latter, while expressly only made applicable to the court's review of the Department's order, it may be assumed, would, in its discretion, be adopted by the Department—it is concluded that the suits have not been prematurely begun upon this ground.

William A. Prendergast, et al. vs. New York Telephone Company (Decided by U. S. Sup. Ct. Apr. 16, 1923).

It was stated upon the argument of the application for a preliminary injunction that, after service of the restraining order, plaintiffs had filed the schedule of rates directed in the order, being those asked pending final determination of the suit. Defendants contend

that this constituted an abandonment by plaintiffs of the rate schedules involved in the Department's hearings and findings. The court [fol. 311] concludes that such filing was but a step taken by plaintiffs in rendering affective the restraining order and that its result was not to render the issues involved in these suits merely moot questions.

It has been further suggested that these suits have been prematurely begun because plaintiffs did not, prior to their institution, seek a review of the Department's order by the State court. Sections 10428 and 10429 Remington's Compiled Statutes provide:

"Sec. 10428. Any complainant or any public service affected by any order of the commission, and deeming it to be contrary to law, may, within thirty days after the service of the order upon him, or it, apply to the superior court of the county in which such proceeding was instituted for a writ of review for the purpose of having its reasonableness and lawfulness inquired into and determined. Such writ shall be made returnable not later than thirty days from and after the date of the issuance thereof, unless upon notice to all parties affected a further time be fixed by the court, and shall direct the commission to certify its record in the case to the court. On such return day the cause shall be heard by the court, unless for good cause shown the same be continued. Said cause shall be heard by the court without the intervention of a jury on the evidence and exhibits introduced before the commission and certified to by it. Upon such hearing the superior court shall enter judgment either affirming or setting aside the order of the commission under review. In case said order is reversed by reason of the commission failing to receive testimony properly proffered, the court shall remand the cause to the commission, with instructions to receive the testimony so proffered and rejected, and enter a new order based upon the evidence theretofore taken and such as it is directed to receive. The court may, in its discretion, remand any cause which is reversed by it to the commission for further action." (Laws of 1911, p. 396, sec. 86.)

It will be noted from the foregoing section that, upon review, the court may only render judgment either affirming or setting aside the order of the Commission, unless the court should hold that the language of this section:

"The court may, in its discretion, remand any cause which is reversed by it to the commission for further action."

[fol. 312] gives the court a wider discretion. Unless it is so held, the court is given no power by that section to make its own findings, or fix rates. For this reason, as far as this statute is concerned, the suit has not been begun prematurely. (Bacon v. Rutland R. R. Co., 232 U. S. 134, at 137.)

The plaintiff, The Pacific Telephone and Telegraph Company (Cause No. 166-E), in describing the hearings had by the Department resulting in its order attacked herein alleges:

"That subsequent to the dates hereinbefore mentioned and between December 18, 1922, and March 1, 1923, said Department held numerous hearings in the State of Washington for the purpose of determining the value of plaintiff's property used or useful in rendering telephone service in the State of Washington; the reasonableness or unreasonableness of the rates and charges then being charged by plaintiff in said state; the reasonableness or unreasonableness of the schedule of rates and charges applicable to the toll service filed as aforesaid by plaintiff on October 5, 1922; and the reasonableness or unreasonableness of the schedule of exchange rates applicable to Seattle and Tacoma filed as aforesaid on September 20, 1922. * * * That the cost to plaintiff of its property in the State of Washington, in the City of Seattle and in the City of Tacoma is now somewhat in excess of the amounts hereinbefore mentioned on account of the additions and betterments in the meantime made to said respective properties. That the cost to plaintiff of its property in the State of Washington and in the cities of Seattle and Tacoma is substantially the rate base fixed by the Department of Public Works in its said order of March 31, 1923, as of the 30th day of June, 1922, with additions and betterments thereto made since that time."

Similar allegations are contained in the complaint in cause No. 167-E.

The outline above of the complaints in the two suits shows that there is involved a controversy as to the value of the properties; that is, the determination of the rate base.

Section 10441 Remington's Compiled Statutes (which is described in one of its titles as appearing in the 1913 session laws of the state: "Valuation of Public Service Properties as Fixed for Rate Purposes not to be Used for Taxing Purposes") provides:

[fol. 313] "The commission shall ascertain, as early as practicable, the cost of construction and equipment, the amount expended in permanent improvements, and proportionate amount of such permanent improvements charged in construction and to operating expenses respectively, the present as compared with the original cost of construction, and the cost of reproducing in its present condition the property of every public service company. * * *

"The commission is hereby authorized to cause a hearing or hearings to be held at such time or times and place or places as the commission may designate for the purpose of ascertaining the matters and things provided for in this section.

"The commission shall, before any hearing is had, notify the company concerned of the time and place of such hearing, by giving at least thirty days' written notice thereof, specifying that at the time and place designated a hearing will be held for the purpose of ascertaining the value of such company's property within the state, which shall be a sufficient complaint to authorize the commission to inquire into the matters designated in this section.

"All companies affected shall be entitled to be heard and intro-

duce evidence at such hearing. The evidence introduced at such hearing shall be reduced to writing and certified under the seal of the commission.

"The commission shall make and render findings of fact in writing covering all matters in this section mentioned concerning which it is directed to inquire into, and shall make findings upon all matters concerning which evidence may have been introduced before it shall tend to show the value of the property used by such company for the public convenience.

"Any company affected by the findings, or any of them, believing such findings, or any of them, to be contrary to law or the evidence introduced, or that such findings are unfair, unwarranted or unjust, may institute proceedings in the superior court of the state of Washington in the county in which said hearing has been held, or, if held in more than one county, then in the county in which said hearing was commenced, and have such findings reviewed, and their correctness, reasonableness and lawfulness inquired into and determined. Such review shall be heard by the court without the intervention of a jury and shall be heard upon the evidence and exhibits taken before the commission and certified to by it; and the court before which such hearing is had, in case it finds any such findings so sought to be reviewed unjust, incorrect, unreasonable, unlawful or not supported by the evidence, shall make new and correct findings to take the place of such as may not be sustained, unless such findings are set aside and reversed for error on the part of [Vol. 314] the commission in rejecting evidence properly proffered in which case it shall remand said hearing to the commission with instructions to receive the evidence so proffered and rejected and make the findings of fact on the evidence so proffered and that already received.

"Said public service company or the commission shall have the right to appeal from the decision of the superior court to the supreme court of the state of Washington, as in civil cases. In case the supreme court finds any findings so sought to be reviewed unjust, incorrect, unlawful or unreasonable, or not supported by the evidence, it shall either make and render proper findings or remand the case to the superior court with instructions to make proper findings on the evidence already submitted, unless the same is reversed for error in rejecting evidence properly proffered in which case the hearing shall be remanded to the commission with instructions to receive the evidence so proffered and make findings on the evidence so proffered and rejected and that already received.

"The findings of the commission so filed, or as the same may be corrected by the courts, when properly certified under the seal of the commission, shall be admissible in evidence in any action, proceeding or hearing, excepting with respect to matters of assessment and valuation, in which the state or any officer, department or institution thereof, or any county, municipality or other body politic and the public service company affected is interested, whether arising under the provisions of this act or otherwise, and such findings when so introduced shall be conclusive evidence of the facts stated in such

findings as of the date therein stated under conditions then existing, except as a basis for taxation, and such facts can only be controverted by showing a subsequent change in conditions bearing upon the facts therein determined.

"The commission shall hereafter, from time to time, cause further hearings to be had for the purpose of ascertaining the betterments, improvements, additions, and extensions made by any public service company to its property subsequent to the date of any prior hearing, and shall examine into all traffic movement and every matter and thing that would change, modify, or affect any finding of fact previously made, and shall at such time make findings of fact supplemental to those theretofore made, showing the amount expended in betterments, improvements, extensions and additions since such prior findings and the cost of reproducing the same, the value of the property used by such company at the time of such subsequent hearing, the relative value of the use to which such property is put in the performance of intrastate and interstate business, respectively, and the value of the property of such company in the state used for the public convenience of intrastate business. Such hearing shall be had upon the same notice, the examination conducted in the same manner, and the findings so [fol. 315] made shall have the same force and effect as is provided herein for such original notice, hearing and findings: Provided, that such findings made at such supplemental hearing shall be considered in connection with and as a part of the original findings except in so far as such supplemental findings shall change or modify the findings made at the original hearing." (Laws of 1911, p. 601, sec. 92; Laws of 1913, p. 662, sec. 1.)

Section 10429 Remington's Compiled Statutes provides:

"The pendency of any writ of review shall not of itself stay or suspend the operation of the order of the commission, but the superior court in its discretion may restrain or suspend, in whole or in part, the operation of the commission's order pending the final hearing and determination of the suit.

"No order so restraining or suspending an order of the commission relating to rates, fares, charges, tolls or rentals, or rules or regulations, practices, classifications or contracts affecting the same, shall be made by the superior court otherwise than upon three days' notice and after hearing, and if a supersedeas is granted the order granting the same shall contain a specific finding, based upon evidence submitted to the court making the order, and identified by reference thereto, that great or irreparable damage would otherwise result to the petitioner, and specifying the nature of the damage; Provided, however, that when any rate has been in force for any length of time exceeding one year, and such rate is advanced by the public service company, and the order of the commission reinstates such prior rate, in whole or in part, no supersedeas shall be allowed in any case from such order pending the final determination of the cause

in the superior court, or if appealed to the supreme court by such supreme court.

"In case the order of the commission under review is superseded by the court, it shall require a bond, with good and sufficient surety, conditioned that such company petitioning for such review shall answer for all damages caused by the delay in the enforcement of the order of the commission, and all compensation for whatever sums for transportation, transmission or service any person or corporation shall be compelled to pay pending the review proceedings in excess of the sum such person or corporation would have been compelled to pay if the order of the commission had not been suspended.

"The court may, in addition to or in lieu of the bond herein provided for, require such other or further security for the payment of such excess charges or damages as it may deem proper." (Laws of 1911, p. 597, sec. 87.)

[fol. 316] The findings of the Department show that its hearings and findings were made in pursuance of section 10441 above.

It clearly appears from the foregoing that, upon a review of the Department's proceedings, neither the Superior nor the Supreme Court is limited to a judgment of affirmance or reversal; but that the Superior Court may

"in case it finds any such findings so sought to be reviewed unjust, incorrect, unreasonable, unlawful or not supported by the evidence, shall make new and correct findings to take the place of such as may not be sustained, unless such findings are set aside and reversed for error on the part of the commission in rejecting evidence properly proffered in which case it shall remand said hearing to the commission with instructions to receive the evidence so proffered and rejected and make the findings of fact on the evidence so proffered and that already received."

and that

"in case the supreme court finds any findings so sought to be reviewed unjust, incorrect, unlawful or unreasonable, or not supported by the evidence, it shall either make and render proper findings or remand the case to the superior court with instructions to make proper findings on the evidence already submitted, unless the same is reversed for error in rejecting evidence properly proffered in which case the hearing shall be remanded to the commission with instructions to receive the evidence so proffered and make findings on the evidence so proffered and rejected and that already received."

It thus clearly appears that both courts have legislative authority in determining the rate base, superior to that of the Department.

Considerations of "comity and convenience" require the court to hold that, until plaintiffs have exhausted their right to relief in the

Superior and Supreme Courts—relief, in part at least, legislative in character, these causes must be stayed.

Prentis v. Atlantic Coast Line, 211 U. S. 210;
The Public Utilities Commission of the District of Columbia vs. Potomac Electric Power Company et al., (Decided by U. S. Sup. Ct. Apr. 9, 1923).
[fol. 317] William A. Prendergast et al. vs. New York Telephone Company, (Decided by U. S. Sup. Ct. Apr. 16, 1923).
Bacon v. Rutland R. R. Co., 232 U. S. 134.

Granted the power, it is not practicable for the Department, the State or Cities to indemnify the plaintiffs in these cases, should plaintiffs in the end prevail and establish the right to higher rates. The reason that it is impracticable is on account of the inconvenience and disproportionate cost to the Department, State and Cities in securing indemnity from each of the telephone users against the contingency of the higher rates being determined in the end the proper rates. It is obvious, on account of changes in those making use of the service furnished by the plaintiffs and the small amounts involved in the individual transactions that it is unreasonable to ask them to look to such users for such indemnity should they ultimately prevail. It is, therefore, clear that—should the showing made establish with reasonable certainty the confiscatory nature of the rates ordered—plaintiffs, upon giving an adequate bond for the protection of those concerned, in case plaintiffs fail to establish their contention, are entitled to have the objectionable rates stayed pending final determination.

The extent of the stay in the Thurston County case is not made clear. It will be assumed that it does not stay the enforcement of the rate attacked by plaintiffs. While the Thurston County case is not one brought to "enforce" the Department's "order," it is one seeking a lower rate than that of such order, and, therefore, puts the Department to the defense of the order which plaintiffs here attack in cause No. 166-E.

[fol. 318] The Pacific Telephone & Telegraph Company is made a defendant in the Thurston County case. While the City of Seattle, plaintiff therein, has not secured a stay of the order attacked by plaintiffs herein, and it does not appear that the Pacific Telephone and Telegraph Company has asked for such a stay and been refused, the Superior Court and the Supreme Court of the State of Washington being vested, by section 10441, with legislative authority superior to that of the Department, this suit must be stayed until such time as plaintiffs have sought such relief from those courts under the state law. If denied a stay of the objectionable order by the State court upon such review, and if denied such stay in the Thurston County case now pending, and such denials are affirmed by the State Supreme Court, the applications herein for a preliminary injunction may be renewed.

Prentis v. Atlantic Coast Line, 211 U. S. 210;
Bacon v. Rutland R. R. Co., 232 U. S. 134 at 137;
Oklahoma Natural Gas Co. v. Campbell Russell, et al., (Decided by Sup. Ct. of U. S. Mar. 5, 1923).

The same considerations which require that the preliminary injunction be denied, necessitate the dissolution of the restraining order. Reaching this conclusion, the question of the rates, whether fair, reasonable or confiscatory in character, has not been considered.

Judge William B. Gilbert, concurs.

Judge Jeremiah Neterer, concurring, states:

[fol. 319] IN THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

CONCURRING OPINION—Filed May 23, 1923

NETERER, D. J.: I agree with the conclusion of Judge Cushman that on consideration of comity and convenience this court should not interfere where the plaintiff has *open* a higher court of the state. The Prentis Case, 211 U. S. 210; Puget Sound Elec. Ry. Co. v. Lee, 207 Fed. 801, until the State remedy is exhausted. The plaintiff by its acts has become an adopted creature of the State, enjoying the rights and privileges provided by its law, and is subject to the control thereof. The state accords it a right of eminent domain, and it becomes amenable to the Washington Public Service Commission Law. This law provides for establishing reasonable rates for public service. Provision is made for hearing and finding, and for review, Rem. C. 10428, before the Superior Court and for appeal to the Supreme Court from such judgment, R. C. 10430.

This court has jurisdiction by reason of the fifth and fourteenth amendments only. It has no revisory power and may not amend or modify a rate in the chancery sense, but is confined to the judicial determination of the controversy on the facts, and may not enter the administrative or legislative issue, Public Utilities, etc. v. Potomac Elec. Power Co. U. S. Supreme Court, April 9, 1923. I also desire to say that in my opinion the majority of the Commission have the right conception that consideration should be given to the $2,500,000 (round numbers) in the depreciation surplus fund, and an adjusted compensation for the 4½ per cent contract with the Parent Company. Whether the proper consideration was given is not now before the court.

(Signed) Jeremiah Neterer.

[File endorsement omitted.]

[fol. 320] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

ASSIGNMENT OF ERRORS—Filed July 16, 1923

Comes now The Pacific Telephone and Telegraph Company, a corporation, plaintiff in the above entitled cause, and files the following Assignments of Error on which it will rely on its appeal from the interlocutory order entered in the above entitled cause on the 30th day of April, 1923:

I. The court erred in denying plaintiff's motion for an interlocutory injunction.

II. The court erred in not granting the motion of said The Pacific Telephone and Telegraph Company for an interlocutory injunction.

[fol. 321] III. The court erred in refusing to hold that the order of the Department of Public Works of Washington, rendered March 31, 1923, deprives plaintiff of its property without due process of law, contrary to Section 1 of the Fourteenth Amendment to the Constitution of the United States.

IV. The court erred in holding that if the order of the Department of Public Works of Washington, rendered March 31, 1923, deprives plaintiff of its property without due process of law, nevertheless the above entitled suit should be stayed until said The Pacific Telephone and Telegraph Company has applied to the State courts of Washington for relief against the enforcement of said order and such relief has been refused by said State courts.

V. The court erred in holding that the order of the Department of Public Works of Washington, rendered March 31, 1923, was not the final legislative act under the laws of the State of Washington.

VI. The court erred in holding that Chapter 182 of the Session Laws of the State of Washington for the year 1913, is not, in so far as it purports to confer legislative power upon the courts of the State of Washington, in violation of and contrary to Article II, Section 1, and Article IV, Section 1, of the Constitution of the State of Washington.

[fol. 322] VII. The court erred in holding that the pendency of a certain cause in the Superior Court of the State of Washington for Thurston County, entitled: "The State of Washington, ex rel., The City of Seattle, a municipal corporation, Petitioner and Relator, v. S. V. Kuykendall, as Director of Public Works, Hance H. Cleland, as Supervisor of Public Utilities, and Frank R. Spinning, as Supervisor of Transportation of the State of Washington, the persons constituting that portion of the Department of Public Works of Washington, exercising jurisdiction in the Division of Public Utilities un-

der the 'Public Service Commission Law'; and The Pacific Telephone and Telegraph Company, a corporation, Respondents," requires that this suit pending in the United States District Court for the Western District of Washington, Southern Division, be stayed.

VIII. The court erred in not holding that Chapter 182 of the Session Laws of the State of Washington for the year 1913 is contrary to and in violation of Section 1 of the Fourteenth Amendment to the Constitution of the United States so far as said Chapter 182 precludes a determination of the value of the property of the above named plaintiff as of the time when an inquiry was made by the Department of Public Works of the State of Washington in 1923 regarding rates.

Wherefore, in order that the foregoing Assignment of Errors may be and appear of record, plaintiff presents the same to the court and prays that such disposition may be made thereof as is in accordance with the law and the statutes of the United States in such cases made and provided; and plaintiff prays that said interlocutory order of [fol. 323] April 30, 1923, be reversed, set aside and held for naught, and that an order granting plaintiff's motion for an interlocutory injunction be entered by the court.

Otto B. Rupp, Post, Russell & Higgins, Pillsbury, Madison & Sutro, Solicitors for Plaintiff. W. V. Tanner, Of Counsel.

[File endorsement omitted.]

[fol. 324] In the District Court of the United States for the Western District of Washington, Southern Division

[Title omitted]

Petition for Allowance of Appeal—Filed July 16, 1923

The above named, The Pacific Telephone and Telegraph Company, feeling itself aggrieved by the order rendered in the above entitled cause on the 30th day of April, 1923, denying the motion of The Pacific Telephone and Telegraph Company for an interlocutory injunction in said cause, does hereby appeal from said order to the Supreme Court of the United States, and prays that this its appeal may be allowed and that a transcript of the record and proceedings in said cause, and all things concerning the same upon which said order was made, duly authenticated, may be sent to the Supreme Court of the United States in order that the errors complained of in the assignment of errors herein filed by said The Pacific Telephone [fol. 325] and Telegraph Company may be reviewed, and if error be found, corrected according to the laws and customs of the United States.

Otto B. Rupp, Post, Russell & Higgins, Pillsbury, Madison & Sutro, Solicitors for Petitioner. W. V. Tanner, Of Counsel.

[File endorsement omitted.]

[fol. 326] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

ORDER ALLOWING APPEAL—Filed July 16, 1923

It is hereby ordered, that the appeal prayed for by the above named plaintiff in the above entitled cause, to the Supreme Court of the United States, be and the same hereby is allowed as prayed.

Done in open court this 16th day of July, 1923.

Edward E. Cushman, Judge.

[File endorsement omitted.]

[fol. 327] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

ORDER FIXING AMOUNT OF BOND ON APPEAL—Filed July 16, 1923

On reading the petition of the above named plaintiff in the above entitled cause, for the allowance of an appeal to the Supreme Court of the United States from the order rendered in said cause on April 30, 1923, denying the motion of plaintiff for an interlocutory injunction in said cause, it is ordered that the plaintiff above named execute and file in the office of the Clerk of the above named court, a bond on appeal, conditioned according to law, in the sum of Five Hundred & no/100 Dollars, with good and sufficient surety to be approved by the undersigned.

Done in open court this 16th day of July, 1923.

Edward E. Cushman, Judge.

[fol. 328] [File endorsement omitted.]

[fols. 329 & 330] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

BOND ON APPEAL FOR $500.00—Approved and filed July 16, 1923; omitted in printing

[fol. 331] [File endorsement omitted.]

[fol. 332] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

CITATION—Filed July 16, 1923; omitted in printing

[fol. 333] Due and proper service of the above and foregoing citation is hereby accepted and acknowledged this 17 day of July, 1923.

John H. Dunbar, Raymond W. Clifford, Solicitors for Defendants.

[File endorsement omitted.]

[fol. 334] ACCEPTANCE OF SERVICE

Due, regular and timely service of the Citation on Appeal in the above entitled cause from the United States District Court for the Western District of Washington, Southern Division, to the Supreme Court of the United States, of the Præcipe for Record on Appeal in said cause, of the Petition for Allowance of Appeal, of the Order Allowing Appeal, of the Assignment of Errors, of the Order Fixing Amount of Bond on Appeal, and of the Appeal Bond in said cause, is hereby admitted this 17 day of July, 1923.

John H. Dunbar, Raymond W. Clifford, Solicitors for Defendants.

[File endorsement omitted.]

[fol. 335] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE WESTERN DISTRICT OF WASHINGTON, SOUTHERN DIVISION

[Title omitted]

PRÆCIPE FOR RECORD ON APPEAL—Filed July 17, 1923

To the Clerk of the above-entitled court:

Please make and certify on appeal to the Supreme Court of the United States a record which includes the following files, to-wit:

1. Bill of Complaint and Exhibits;

2. Subpœna and Marshal's return thereto;

3. Temporary restraining order;

4. Affidavits of C. T. Blanck, C. S. Cassasa, P. H. Coolidge, C. E. Fleager (2 thereof), Henry L. Gray, Ralph H. MacMichael, J. C.

Nowell, W. J. Phillips, offered in evidence by plaintiff in support of [fol. 336] its application for an interlocutory injunction;

5. Motion of defendants to dismiss plaintiff's complaint;

6. Motion of defendants to dissolve restraining order, together with affidavit attached thereto;

7. Motion of defendants to stay proceedings in the above entitled suit and exhibit thereto attached;

8. Affidavit of E. C. Ridley filed in opposition to application for interlocutory injunction;

9. Order of April 30, 1923, denying interlocutory injunction;

10. Opinion filed May 23, 1923, on application for interlocutory injunction;

11. Assignment of Errors;

12. Petition for allowance of appeal;

13. Order allowing appeal;

14. Order fixing amount of bond on appeal;

15. Bond on appeal;

16. Citation;

17. Acceptance of service;

18. This præcipe with acceptance of service thereof.

Otto B. Rupp, Post, Russell & Higgins, Pillsbury, Madison & Sutro, Solicitors for Plaintiff. W. V. Tanner, Of Counsel.

[fol. 337] [File endorsement omitted.]

[fol. 338] UNITED STATES OF AMERICA,
Western District of Washington, ss:

CLERK'S CERTIFICATE

I, F. M. Harshberger, Clerk of the District Court of the United States of America, for the Western District of Washington, do hereby certify and return to the claim of appeal of The Pacific Telephone and Telegraph Company, from a certain order dated April 30, 1923, in a cause pending in said court wherein The Pacific Telephone and Telegraph Company, a corporation, is plaintiff, and E. V. Kuykendall, as Director of Public Works of Washington, Hance H. Cleland, as Supervisor of Public Utilities of Washington, and Frank R. Spinning, as Supervisor of Transportation of Washington, the persons constituting the Department of Public Works of Washington, and

John H. Dunbar, Attorney General of the State of Washington are defendants, that the above and foregoing and within transcript of record, pages numbered 1 to 339 inclusive, is a true copy of all papers filed and proceedings had and entered in said cause as the same appear on file and of record in my office; that I have compared the same with the originals, and they are true and correct transcripts therefrom and of the whole thereof.

I further certify that I hereto attach and herewith transmit the original citation in said cause with acceptance of service on said writ.

I further certify that the following is a full, true and correct statement of all expenses, costs, fees and charges as incurred and paid in my office by and on behalf of appellant herein, for making record, certificates and return to the Supreme Court of the United States in the above entitled cause, to-wit:

[fol. 339] Filing appeal papers, orders, etc., and issuing citation	$7.00
Clerk's Fees (Sec. 828 R. S. U. S.) for making record, certificate and return, 722 folios at 15¢	108.30
Certificate of clerk to record, 4 folios at 15¢ and seal	.80
Total	$116.10

In testimony whereof, I have hereunto set my hand and affixed the seal of said Court at Tacoma, in said District, this 28th day of August, in the year of our Lord one thousand nine hundred and twenty-three and of the Independence of the United States the one hundred and forty-eighth.

F. M. Harshberger, Clerk of the District Court of the United States for the Western District of Washington, By Ed. M. Lakin, Deputy.

[fols. 340 & 341] Copy of citation omitted in printing.

[fol. 342] [File endorsement omitted.]

Endorsed on cover: File No. 29,850. Western Washington D. C. U. S. Term No. 540. The Pacific Telephone and Telegraph Company, appellant, vs. E. V. Kuykendall, as Director of Public Works of Washington, et al., etc., et al. Filed September 10th, 1923. File No. 29,850.



DEC 1 19
WM. R. STAN
C

IN THE

SUPREME COURT

OF THE

United States

OCTOBER TERM, 1923

THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation,
Appellant,
v.
E. V. KUYKENDALL, as Director of Public Works of Washington, HANCE H. CLELAND, as Supervisor of Public Utilities of Washington, and FRANK R. SPINNING, as Supervisor of Transportation of Washington, the persons constituting the Department of Public Works of the State of Washington, and JOHN H. DUNBAR, Attorney General of the State of Washington,
Appellees.

No. 540

PETITION IN ANSWER TO MOTION TO ADVANCE

JOHN H. DUNBAR,
Attorney General of the State of Washington.

RAYMOND W. CLIFFORD,
Assistant Attorney General of the State of Washington.

Counsel for Appellees.

FRANK M. LAMBORN, PUBLIC PRINTER

FILED
DEC 1 19
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Appellees.

No. 540

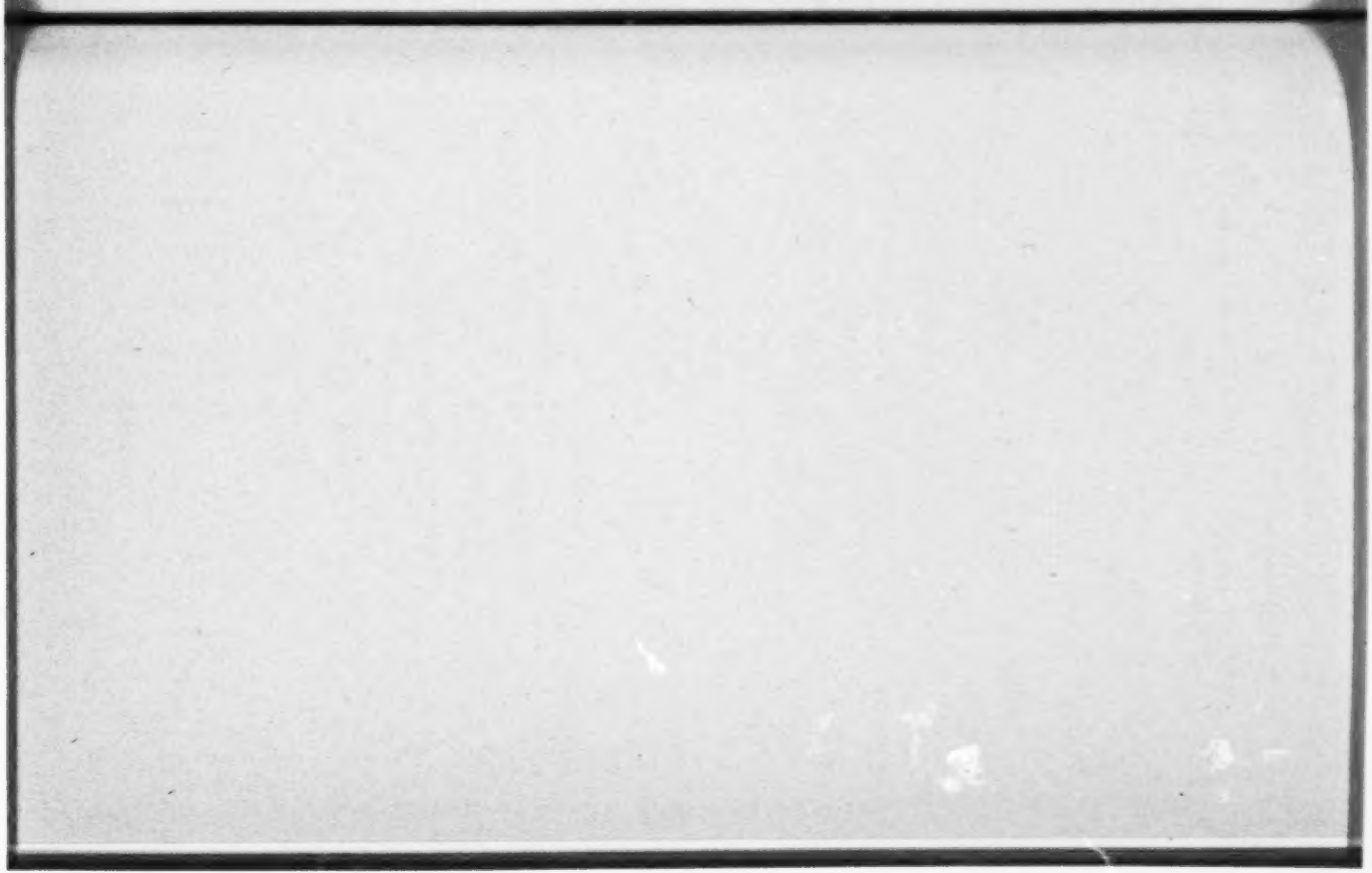
PETITION IN ANSWER TO MOTION TO ADVANCE

JOHN H. DUNBAR,
Attorney General of the State of Washington,

RAYMOND W. CLIFFORD,
Assistant Attorney General of the State of Washington,

Counsel for Appellees.

FRANK M. LAMBORN, PUBLIC PRINTER



IN THE

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OCTOBER TERM, 1923

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Appellees.

No.....

PETITION IN ANSWER TO MOTION TO ADVANCE

JOHN H. DUNBAR,
Attorney General of the State of Washington,

RAYMOND W. CLIFFORD,
Assistant Attorney General of the State of Washington,

Counsel for Appellees.

IN THE

SUPREME COURT

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OCTOBER TERM, 1923

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Appellant,
v.
E. V. KUYKENDALL, as Director of Public Works of Washington, HANCE H. CLELAND, as Supervisor of Public Utilities of Washington, and FRANK R. SPINNING, as Supervisor of Transportation of Washington, the persons constituting the Department of Public Works of the State of Washington, and JOHN H. DUNBAR, Attorney General of the State of Washington,
Appellees.
No.....

NOTICE

To—

H. D. PILLSBURY, ESQ.,
FRANK T. POST, ESQ.,
W. V. TANNER, ESQ.,
Counsel for Appellant.

PLEASE TAKE NOTICE that on Monday, December 3, 1923, at 12 o'clock noon, or as soon thereafter as counsel may be heard, E. V. Kuykendall,

as Director of Public Works of Washington, Hance H. Cleland, as Supervisor of Public Utilities of Washington, and Frank R. Spinning, as Supervisor of Transportation of Washington, the persons constituting the Department of Public Works of Washington, and John H. Dunbar, the Attorney General of the State of Washington, Appellees, will submit to the Supreme Court of the United States a petition in answer to motion to advance, a copy of which is attached hereto, petitioning said court to pass said motion to advance for consideration until the determination of the petition for certiorari in the case of Honorable Edward E. Cushman, District Judge of the United States for the Western District of Washington, Southern Division, Petitioner, v. The Pacific Telephone and Telegraph Company, Respondent.

Dated November 24, 1923.

E. V. KUYKENDALL, as Director of Public Works of Washington, HANCE H. CLELAND, as Supervisor of Public Utilities of Washington, and FRANK R. SPINNING, as Supervisor of Transportation of Washington, the persons constituting the Department of Public Works of the State of Washington, and JOHN H. DUNBAR, Attorney General of the State of Washington,

Appellees.

By JOHN H. DUNBAR, Attorney General of the State of Washington, and RAYMOND W. CLIFFORD, Assistant Attorney General of the State of Washington,

Their Counsel.

In the Supreme Court of the United States

OCTOBER TERM, 1923

THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation,
Appellant,
v.
E. V. KUYKENDALL, as Director of Public Works of Washington, HANCE H. CLELAND, as Supervisor of Public Utilities of Washington, and FRANK R. SPINNING, as Supervisor of Transportation of Washington, the persons constituting the Department of Public Works of the State of Washington, and JOHN H. DUNBAR, Attorney General of the State of Washington,
Appellees.
No.....

PETITION IN ANSWER TO MOTION TO ADVANCE.

The petitioners are appellees herein; with the exception of the appellee Dunbar, they constitute the Department of Public Works of the State of Washington, a regulatory body of that State having jurisdiction over the rates which are the subject of this bill. The exchange rates, a denial of increase in

which gave rise to this suit, are the war time rates made effective by the Postmaster General while he was in possession and control of the system of appellant by authority of a resolution of Congress and proclamation of the President. They were refiled by appellant at the conclusion of Federal control and continued in effect immediately upon such conclusion by affirmative order of the State regulatory body. The toll rates of appellant are also the war time rates of the Postmaster General.

On application for interlocutory injunction herein, a court of three judges constituted as provided in section 266, Judicial Code, held that it was lacking in jurisdiction until a resort to and exhaustion of the remedies provided by State law (cf. Motion to Advance, p. 10). When shortly thereafter appellant sought to prosecute the merits before the district judge in whose court the bill was filed, Honorable Edward E. Cushman, that court declined to pass upon pleadings directed to the merits until the fundamental jurisdictional defect found by the statutory court had been removed. Appellant next took this appeal, the advancement of which it now moves; appellees made prompt appearance. Appellant then applied to the Circuit Court of Appeals for the Ninth Circuit, for mandate to compel Judge Cushman to proceed with the trial upon the merits (Motion to Advance, p. 8), and the same was granted. Counsel for appellees in the instant appeal represented Judge Cushman in the mandamus proceeding at his request,

and since denial of the petition for rehearing in the mandamus cause have been authorized to apply to this court for writ of certiorari to review the proceedings before the Circuit Court of Appeals culminating in peremptory mandate. Preparation of a petition to this court for certiorari was commenced forthwith. The appearance and fee required, the petition for certiorari, and the certified copy of the record for printing have been transmitted to the clerk of this court, with instruction to docket, and the petition will be noticed for hearing before this court January 7, 1924. The affidavit of John H. Dunbar regarding the same is attached.

Appellees pray that the motion to advance be passed for consideration until the determination of the petition for certiorari in the mandamus proceeding, and that upon the granting of such petition the instant proceeding and that by way of certiorari be consolidated.

This petition is not made for the purpose of delay, but is of right by reason of the following:

1. The mandate of the Circuit Court of Appeals for the Ninth Circuit is peremptory, the remittitur was sent down forthwith, and the trial court is required thereby to proceed with the merits. The appeal sought to be advanced involves only jurisdictional matters. The allowance of certiorari and consequent stay of the proceeding before the trial court is necessary, else the proceeding on the merits and the expense thereof will be for naught in event the

decision of the statutory court denying jurisdiction is affirmed.

2. Appellant contends (Motion to Advance, p. 9) that the Circuit Court of Appeals decided in the mandamus proceeding the identical questions that are before this court upon the present appeal. Conceding this for argument only, and not admitting the same, appellees are entitled to stay by certiorari and litigate the rule requiring procedure with the merits where trial may be for naught.

3. The showing denying fair return as set forth by appellant in its bill and affidavits filed for hearing before the statutory court was controverted by the affidavit of appellee Kuykendall. It was shown, *inter alia*, that depreciation expense claimed was excessive and in part not properly allowable, and the expense of alleged services and materials said to be furnished by the parent concern of appellant far greater than a reasonable expense for such services and materials as were in fact furnished. The statutory court, examining the bill with respect to jurisdiction found that issues involving valuation were presented.

4. It was contended on behalf of Judge Cushman in the mandamus proceeding that the jurisdictional defect disclosed by the bill in the instant case and found by the statutory court, was an impediment alike to the application for interlocutory injunction and the prosecution of the merits. On the other hand, appellant contended that the jurisdictional defect

extended only to the interlocutory application. It is plain that if the instant appeal is determined in accord with appellant's contention restricting the jurisdictional issue, the statutory court being nevertheless sustained with respect to the existence of such jurisdictional defect, and without the allowance and consolidation of the proceeding by way of certiorari, appellees will be compelled to meet on trial the issues raised by the prayer for permanent injunction notwithstanding.

WHEREFORE, appellees pray that the motion to advance be passed for consideration until the determination of the petition for certiorari in the mandamus proceeding, and that upon the granting of such petition the instant proceeding and that by way of certiorari be consolidated.

E. V. KUYKENDALL,
as Director,

HANCE H. CLELAND and
FRANK R. SPINNING,
as Supervisors of the Department of Public Works of the State of Washington,

and

JOHN H. DUNBAR,
Attorney General of the State of Washington,
Appellees,

By JOHN H. DUNBAR,
Attorney General of the State of Washington,

RAYMOND W. CLIFFORD,
Assistant Attorney General of the State of Washington,
Counsel for Appellees.

In the Supreme Court of the United States

OCTOBER TERM, 1923

THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation,
Appellant,
v.
E. V. KUYKENDALL, as Director of Public Works of Washington, HANCE H. CLELAND, as Supervisor of Public Utilities of Washington, and FRANK R. SPINNING, as Supervisor of Transportation of Washington, the persons constituting the Department of Public Works of the State of Washington, and JOHN H. DUNBAR, Attorney General of the State of Washington,
Appellees.

No.....
Affidavit

UNITED STATES OF AMERICA,
STATE OF WASHINGTON,
COUNTY OF THURSTON. } SS.

John H. Dunbar, being first duly sworn, on oath deposes and says:

That he is the duly appointed, qualified and acting Attorney General of the State of Washington and of counsel for the appellees in the above entitled cause.

That he is also of counsel for the Honorable Edward E. Cushman, Judge of the United States District Court for the Western District of Washing-

ton, Southern Division, who was the respondent in a certain action in mandamus before the United States Circuit Court of Appeals for the Ninth Circuit, entitled therein No. 4070, The Pacific Telephone and Telegraph Company, a corporation, Petitioner, v. Honorable Edward E. Cushman, United States District Judge for the Western District of Washington, Southern Division.

That the proceedings in said mandamus action resulted in the rendering of a decision by the said Circuit Court of Appeals on October 17, 1923, which decision is set forth in full as Appendix "A" to the appellant's motion to advance filed herein, and that pursuant to said decision a peremptory writ of mandamus was issued by said Circuit Court of Appeals directing said Honorable Edward E. Cushman to vacate a certain order made by him in the above entitled cause in the District Court on July 9, 1923, and further requiring him to proceed to hear and determine the defendants' motion to dismiss the above entitled action in the District Court.

That said Circuit Court of Appeals allowed the respondent in said mandamus proceedings fifteen days within which to file a petition for rehearing, and said petition for rehearing was thereafter filed within said time and was denied by said Circuit Court of Appeals on November 12, 1923.

That this affiant has been authorized by said Honorable Edward E. Cushman to apply to this

honorable court for a writ of certiorari to review the decision and order of said Circuit Court of Appeals.

That affiant is proceeding diligently to perfect the petition to this honorable court for such writ of certiorari, and at this time has obtained from the clerk of the said Circuit Court of Appeals a certified transcript of the record in said court in said cause, and has this day mailed to the clerk of this honorable court a petition signed in writing by counsel for said Honorable Edward E. Cushman, together with said certified transcript of the record in said cause, an order of appearance in said cause and a deposit of Twenty-five Dollars ($25.00) to apply on costs, and has requested the clerk of this honorable court to docket said cause and to have the record therein printed as quickly as possible.

That this affiant is now preparing a brief in support of said petition for a writ of certiorari, and as soon as possible said petition and brief will be printed and served upon opposing counsel and notice of such service will be hereafter filed in this honorable court.

That it is the intention of affiant to take all steps necessary to perfect the said petition for a writ of certiorari as soon as possible, and affiant believes that the said petition can and will be presented to this honorable court for its determination on Monday, January 7, 1924.

This affidavit is made in support of appellees' petition in answer to motion to advance in the above

entitled cause, and is not made for the purpose of delay.

JOHN H. DUNBAR.

Subscribed and sworn to before me this 24th day of November, A. D. 1923.

CHAS. O. FLINT,

Notary Public in and for the State of Washington, residing at Olympia, Washington.